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Orville L. Freeman, Secretary of Agriculture

November 13, 1961

The First Year of the New Frontier and Implications for the Future

As I welcome you at this opening of the 39th annual National Agricultural Outlook Conference I would first express sincere appreciation to those, in Washington and throughout the nation, whose work has brought together the information and analyses that will be presented during the next four days.

Although the U.S.D.A. has collected data since its inception a century ago, and has had specific experience in outlook work for forty years, the tools of outlook have never been better than they are today. Modern science and mathematics, research techniques, and electronic computers facilitate the work of accumulating an unprecedented abundance of economic information. Its analysis and interpretation are in the hands of skilled, experienced and able personnel. It provides us with a frame of reference within which to consider policies and programs to improve the outlook for agriculture in the future.

I am glad to be able to report today that the first year of the New Frontier has clear implications for improvement in the future outlook for farmers of the United States.

One year ago, in this auditorium the outlook for 1961 was summarized as follows:

"In view of the ... supply, demand and price support outlook, cash receipts from farm marketings and realized net income of farm operators in 1961 are expected to change little from 1960 levels."

This was a gloomy forecast -- gloomy because it offered no hope for improvement of an average farm income that was less than half of the national average -- gloomy because it indicated no expectation of a reversal of the downward trend of farm income as compared with non-farm income.

But, as you know, this gloomy forecast did not materialize. It did not materialize because of action taken by this Administration. One of the reasons for the improved outlook this year is our feed grain program which has succeeded in reducing stockpiles, decreasing costs below what they would otherwise have been, and increasing farm income. I shall have more to say about this program later today.

Because of this and other actions taken during the first year of the New Frontier, net income realized by farm operators is expected to be around a billion dollars more than that of a year ago. The goal of equality of economic opportunity for the farmers of this nation is an integral part of the New Frontier.

The spirit of the New Frontier demands that American agriculture be given the recognition it deserves for its accomplishments: -- for having made gains in productivity substantially greater than the average of all other industry; -- for having provided consumers with better food at lower real cost than at any other time or place in history; -- for having provided the United States with enough of the basic human needs for food and fiber to spare and to share. We recognize that these gains have been impelled, not only by the scientific and technological revolution in agriculture and the educational and extension processes that brought these gains from the laboratory to the farm, but also -- and most importantly -- by the skill, ability and enterprise of the farmers themselves. And we further recognize that these gains have benefited all consumers, and the national economy as a whole, -- while the farmers who produced those gains have suffered only economic loss as their reward.

The spirit of the New Frontier continues to demand that this inequity be corrected.

What, then, are some of the specific implications of the New Frontier for agriculture? Let me enumerate some of them as they relate to matters you will consider in analyzing economic data that are available.

- 1 - An analysis of the outlook for the productive capacity of the farms of this nation indicates that we can produce more than the total amount that can be used at home and sold or distributed effectively abroad, -- and further analysis demonstrates that a very small agricultural overproduction results in a serious drop in farm prices. The spirit of the New Frontier demands that we find ways to effectively gear our production to amounts that can be used.

- 2 - An analysis of developments in Western Europe indicates that Common Market nations are rapidly increasing their own agricultural productivity, and are considering economic arrangements that could have a serious effect on our agricultural exports. The spirit of the New Frontier demands that these developments be taken into consideration in the formulation of our policies and programs.

- 3 - A study of the world food budget and nutritional deficits in nations throughout the world indicates that most of the people fear hunger more than they fear overproduction; and further study indicates to what extent food exports from the United States can help, and to what extent a real solution of their problem must lie in assistance to increase their own productivity. The spirit of the New Frontier demands that we help as much as we can along both these lines, in the interest of humanity and our own security.

- 4 - A study of farm conditions within our own nation indicates wide variations in efficiency and productivity, with nearly half of our farms lacking in the elements needed for efficient agricultural production; and reveals far too many rural communities that lack the educational and employment opportunities that would offer an alternative to subsistence farming. The spirit of the New Frontier demands policies and programs that will offer opportunities to both youth and adults in those depressed areas, -- that will encourage their development into communities of which America can be proud.

- 5 - A consideration of all these problems, in relation to each other and in relation to other public needs, reveals that there is no easy answer; and a study of history and economics reveals that a policy of do-nothing and drift could lead to disaster. The spirit of the New Frontier, in its very nature, repudiates a course of drift and do-nothing. It demands, instead, that we mobilize our best social and economic engineering to meet these problems -- as we have so successfully mobilized scientific and technological engineering to meet, and to solve, the problems of production.

Problems such as those I have mentioned illustrate the challenge presented by the scientific and technological revolution in agriculture.

Research and education have taught the American farmer how to produce abundantly, but they have not yet shown us how to manage that abundance in the best interest of all.

Science has shown us that we can produce more abundantly than we can consume (in both commercial channels and by special programs to provide food where it is needed) but social science has not yet shown us how to engineer this efficient productivity to benefit the producer.

Technological advance has decreed that a constantly dwindling number of farmers, on fewer acres, but with greater investment of such inputs as machinery and fertilizer, can continue to increase total production; but we have not yet determined how to make the best use of those excess acres, nor have we developed programs for maximum benefit of the human beings whose labor is no longer needed by this efficient agriculture.

But the spirit of the New Frontier insists that we cannot allow machines to displace men, either in agriculture or industry, without providing those men with the opportunity to find and qualify for other employment. It further insists that we cannot allow modern economic trends, such as the increased need for capital and credit in farming, to jeopardize the continued existence of our owner-operated efficient family farm system -- a system that has not only developed the world's most productive agriculture, but also represents the best social and cultural values of rural life.

The first year of the New Frontier has demonstrated that we can do more than analyze and interpret the economic outlook, -- we can change it for the better. Its implication for the future is the challenge of social engineering, of directing our abundant productive capacity in the interest of all.

Outlook is essential in the decision making process. As you study, analyze, and evaluate the economic information that will be presented at this conference, I trust you will consider most seriously the kind of programs and policies that we need to meet this challenge.

I should like to make one final point. In this free country of ours, the choices that are essential to meet this challenge lie ultimately with the people. Programs for agriculture can no longer be determined solely by farmers, or even by farm organizations, or by their representatives in the Congress -- although it would certainly help if farm organizations could agree. But today policies and programs for agriculture can be adopted only if they meet with sufficient acceptance by the non-farm segments of our economy. The people, then, will ultimately choose.

And there is one indispensable prerequisite for making a wise choice--and that is an understanding of the problems involved and of the alternatives available. This imposes an added responsibility upon agricultural economists and agricultural leaders. They are challenged not only to wrestle with the problems and arrive at a consensus that to them seems best, they are also challenged to explain the problems and alternative solutions to the public at large.

This is an educational job of no mean proportions. It is a task that has too long been neglected. During this past year I have become convinced that there is no other aspect of our economic life that enjoys so little understanding as the problems of agriculture. A greater understanding is absolutely essential if we are to meet the challenge of a sound agricultural program for the future.

It can be met,--and it will be worth the effort. If we can meet the challenge of abundance in agriculture we can go forward to meet the challenge of abundance that lies ahead in all other fields, along the new frontier.

For the "new frontier" is more than a political slogan. The term itself represents a challenge to all mankind today. Science and technology have progressed so far that there lies ahead, just beyond the horizon, a potential for abundance of which men never dared to dream in years that are past. We are being thrust from an economy of scarcity into an economy of abundance faster than we have been able to adapt our thinking and our institutions to such a revolutionary change. Serious problems result from this lag in adjusting our social and economic thinking. These are problems that must be overcome in the conquest of the new frontier.

The scientific and technological revolution has presented us with potential power to produce and with power to destroy. The challenges of the new frontier are in the fields of social, economic and human relations. They demand that we direct our ability, vision, and will to the end that the scientific knowledge

and technical skill that is now at hand will be used--not to destroy civilization--but to produce and distribute the abundance that science and technology now offer to a world at peace.



THE AGRICULTURAL OUTLOOK FOR 1962

by

James P. Cavin, Economic Research Service

assisted by

Norman J. Wall, William H. Scofield, Robert L. Tontz, Edward J. Smith and
Robert E. Olson, Economic Research Service, Laura Mae Webb, Agricultural

Research Service, Isabelle M. Kelley, Agricultural Marketing Service and

Paul E. Quintus, Foreign Agricultural Service

at the 39th Annual Agricultural Outlook Conference

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Last fall, the supply, demand, and price-support outlook indicated that cash receipts from farm marketings and the realized net income of farm operators would not change much from 1960 to 1961.

However, a combination of record marketings of farm products, higher price supports for major crops, and increased Government payments under the Feed Grain and Wheat Programs has brought about a marked improvement in the farm income situation. The effect of these influences has been the addition of about 1-1/2 billion dollars to the 38.1 billion of gross farm income reported for 1960. Although production expenses have absorbed about a third of this gain, it appears that the realized net income of farm operators in 1961 will be about a billion dollars higher than the \$11.7 billion received last year (Figure 1).

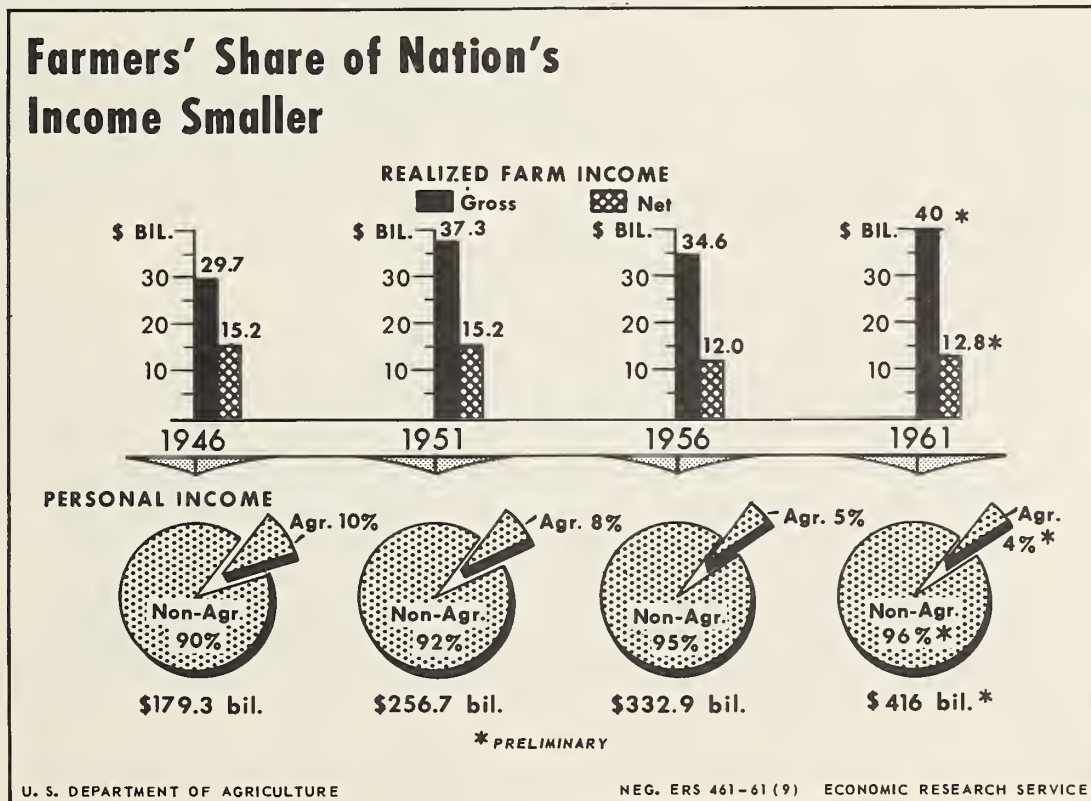


Figure 1

Farm Income in 1962

We expect that the income gains registered for 1961 will be maintained in 1962 with little overall change in the realized net income of farm operators, total volume of farm marketings, or average prices received by farmers.

What are the main elements in this appraisal?

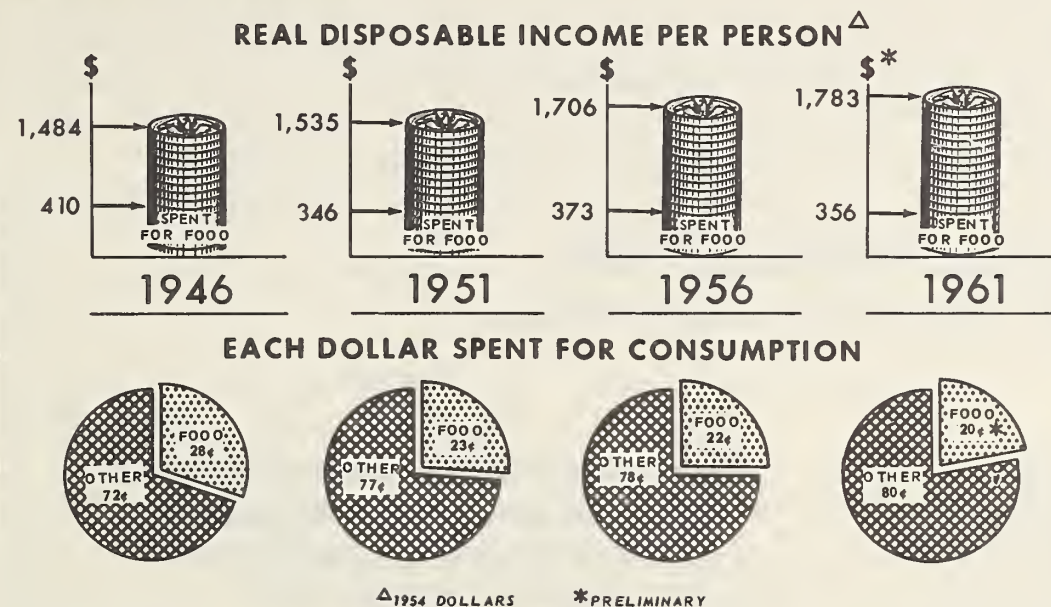
(1) On the output side, it is anticipated that the total volume of agricultural production and total marketings of farm products in 1962 will be about the same as this year. With average growing conditions and an effective Feed Grain and Wheat Program, production and marketing of crops should be smaller in 1962, but this will probably be about offset by the continued upward trend in livestock production, accompanied by a further rise in marketings, particularly of hogs, cattle, and dairy products.

(2) On the domestic demand side, we expect an appreciable rise in consumer income and spending. In response to higher incomes, expenditures for farm produced foods this year are running somewhat better than 3 percent above 1960, and will probably show some further increase next year. It must be borne in mind, however, that rising consumer incomes are of less significance to farmers than they have been in the past. Food expenditures tend to be a declining proportion of consumer income. A considerable proportion of the increases that occur are likely to represent higher charges for processing or marketing and increased outlays for services purchased with food (Figure 2). Under these conditions, increases in population tend to be the most significant factor in the domestic demand for food, though the level of income is still important for a number of commodities, notably meat.

(3) On the foreign side, export outlets will continue large. For the year ending next June, it is estimated that the value of agricultural exports will total about 5 billion dollars, slightly above the record of 1960-61 (Figure 3). Aggregate volume is also expected to set a new record in this period. Strong economic activity in Western Europe and Japan, record gold and dollar holdings in many countries trading with the U. S., and the accelerated Food for Peace Program will all be contributing factors.

Substantial increases are expected in wheat and in oils and oilseeds. For wheat, a new high of around 675 million bushels is presently estimated for 1961-62. U. S. wheat exports under Government programs will likely equal last year's record shipments, while Western Europe will need to import substantially more wheat to make up for its reduced 1961 wheat production which

Food Smaller Share of Spending

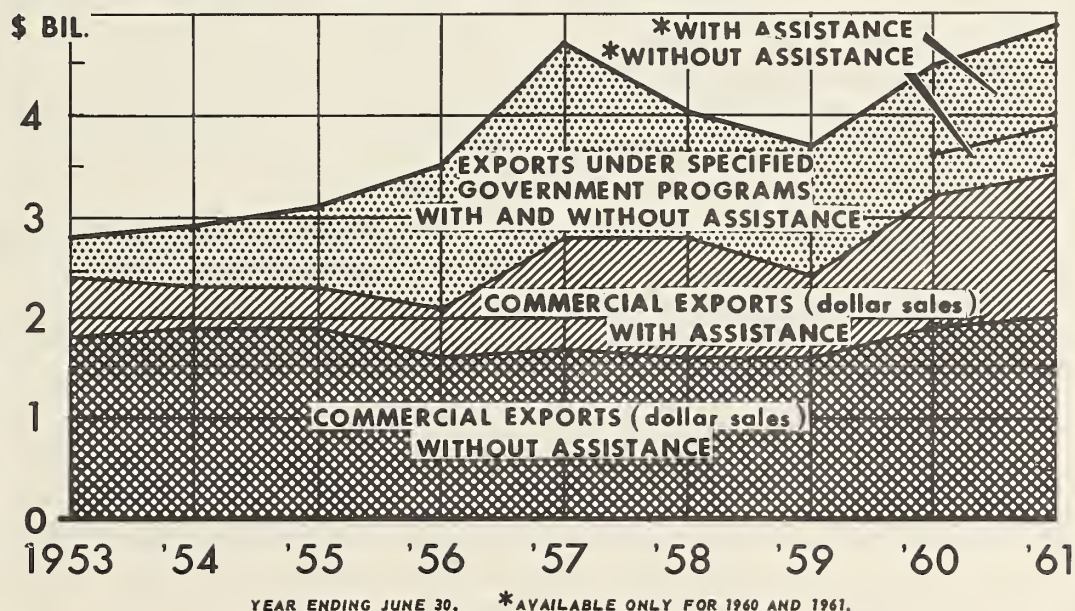


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NEG. ERS 460-61 (9) ECONOMIC RESEARCH SERVICE

Figure 2

Dollar Sales Account for 69% of Total Farm Exports in 1960-61



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NEG. ERS 440-61 (9) ECONOMIC RESEARCH SERVICE

Figure 3

was about 100 million bushels lower than in the previous year. Exports of food fats (including the oil content of soybeans) for the marketing year 1961-62 may set a new record of around 4.5 billion pounds, about 1/3 higher than the 3.2 billion pounds exported in 1960-61. The main factors in the export outlook are expanding demand for soybean meal in Europe; removal of restrictions on imports of soybeans by Japan; the small supply likely to be available from Communist China; and sharp expansion in the movement of edible oils (cottonseed and soybean oils) under the Food for Peace Program (Figure 4).

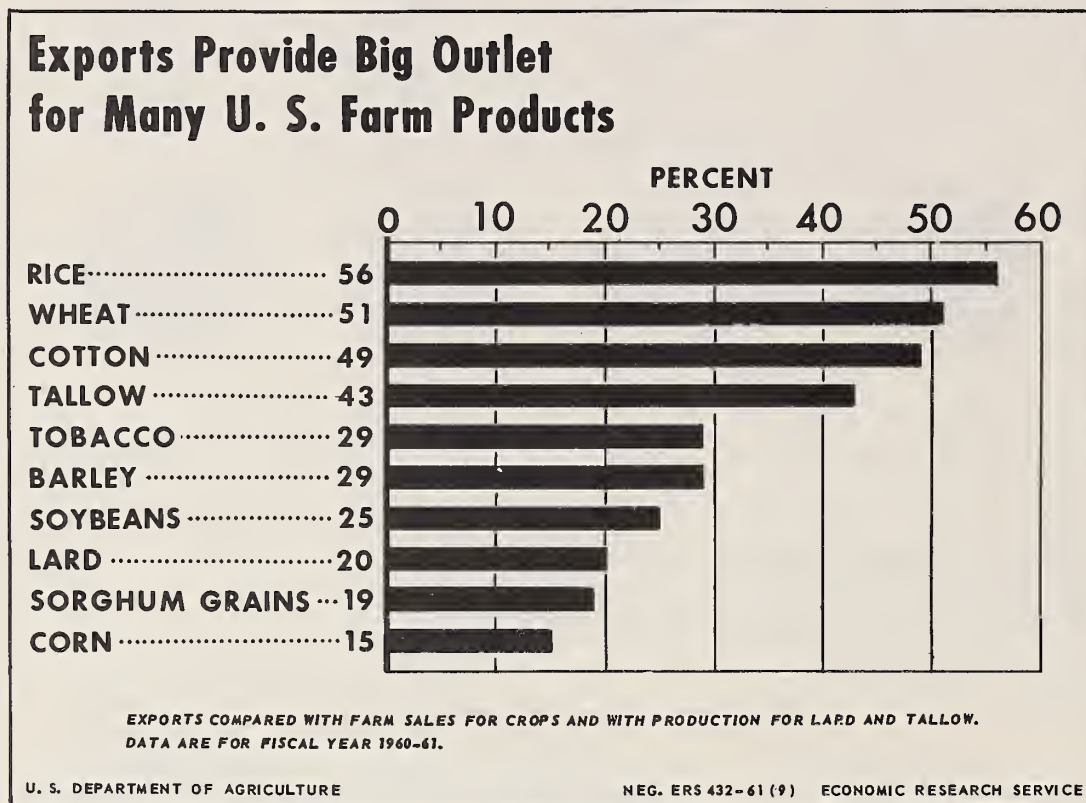


Figure 4

Fruits and vegetables will also contribute to the increased level of exports, with fresh apples and pears likely to show significant increases because of a smaller 1961 production of deciduous fruits in Europe. The total quantity of feed grains exported is expected to continue at the high level of the past 3 years when around 12.5 million tons were exported annually. The favorable export picture for these crops is expected to more than offset a decline in cotton exports to about 5-1/2 million bales compared with over 6.6 million in the crop year 1960-61, as well as slightly smaller exports of rice and tobacco. The expected decline in cotton exports reflects a lessened need for increased carryover stocks in the foreign free world, which was a significant factor in the export demand for foreign cotton in 1960-61.

The aggregate value level of about 5 billion dollars forecast for farm exports in the fiscal year 1961-62 will probably be maintained throughout the calendar year 1962.

(4) What prices will farmers receive for their continued high level of output? Crop prices, which so far this year have averaged about 2-1/2 percent above 1961, may again average slightly higher in 1962, reflecting the new support level of \$2.00 per bushel for the 1962 wheat crop and the continuing influence of the higher supports on the 1961 crops of feed grains and oilseeds. Larger marketings of livestock and products will exert some downward pressure on prices, but the expanding level of consumer incomes and the continued high support levels for dairy products should keep the average level of these prices close to that attained this year. On balance, not much change is expected in the overall index of prices received by farmers.

Despite the expectation of little change in the overall indexes of production and price, a small rise in gross farm income seems likely due to some further increase in cash receipts from livestock and products and in Government payments under the 1962 wheat program. However, we also anticipate a small rise in production expenditures by farmers, probably sufficient to offset any rise in gross, leaving realized net in 1962 just about where it is this year.

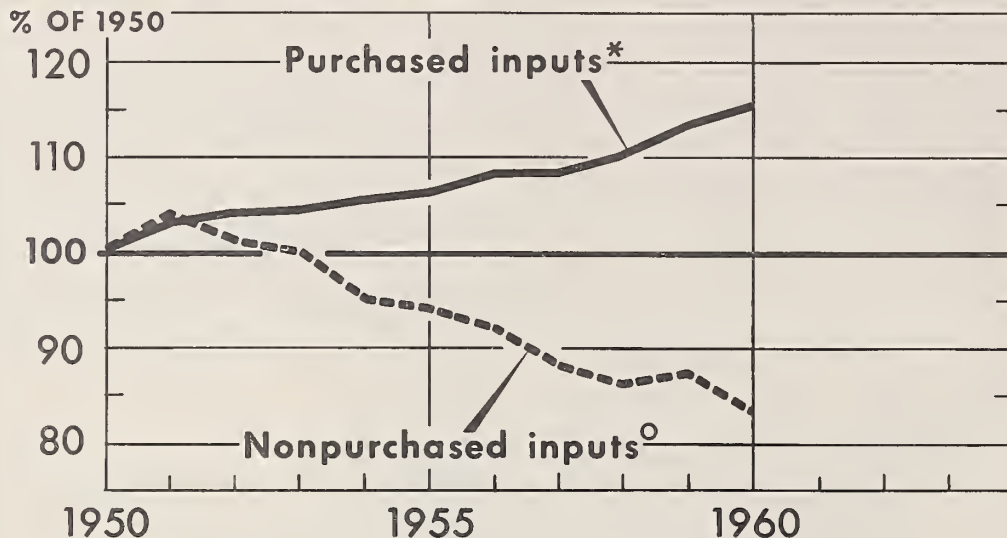
Farm Costs

The reference to production expenses brings us to the farm cost outlook as such. The long-time trend in farm production expenses has been steadily up. This in turn reflects the combined effect of two other trends: (1) a rise in the volume of purchased inputs, and (2) a rise in the prices of these inputs. During the postwar years, these two influences have been about equally important (Figure 5 and 6).

For 1961, production expenses are estimated at a record level of nearly \$27 billion, up about \$500 million from last year. Much of this rise is due to an increase in prices paid by farmers for production items, interest, taxes, and wages, which as a group are up about 1 percent from last year. But there have also been larger purchases of some inputs in 1961.

Some further increase in production expenses, probably less than that which occurred this year, is anticipated for 1962.

Purchased Inputs Increase; Nonpurchased, Decrease



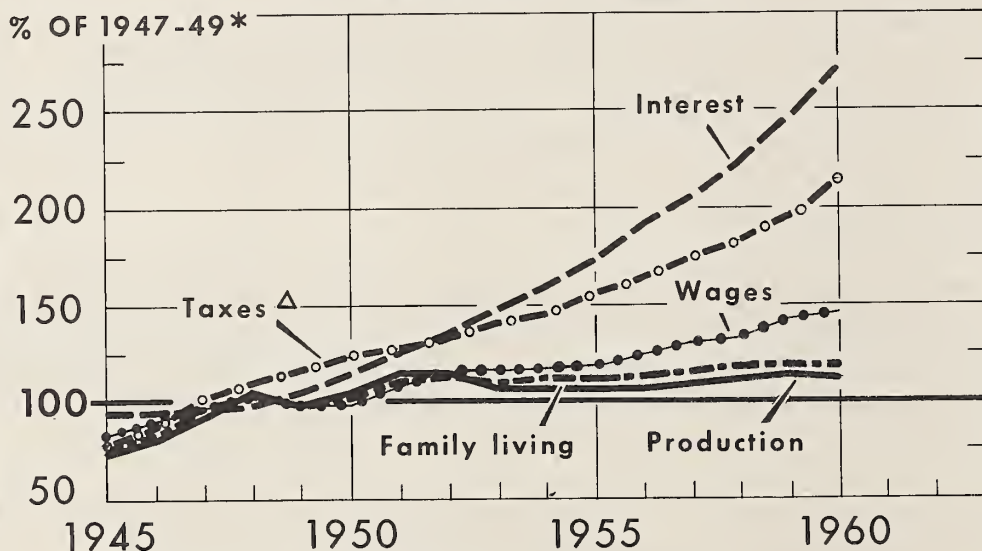
* ALL INPUTS OTHER THAN NONPURCHASED INPUTS AND PRODUCTS OF OTHER FARMS.
^o OPERATOR AND FAMILY LABOR, OPERATOR-OWNED REAL ESTATE AND OTHER CAPITAL INPUTS.

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NEG. ERS 358-61 (8) ECONOMIC RESEARCH SERVICE

Figure 5

PRICES PAID FOR SELECTED COMPONENTS OF THE PARITY INDEX



ALASKA AND HAWAII NOT INCLUDED.

* TAX INDEX BASE IS 1946-48, COMPARABLE TO OTHER COMPONENTS BASED ON 1947-49
 Δ YEAR OF LEVY.

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NEG. ERS 147-61 (5) ECONOMIC RESEARCH SERVICE

Figure 6

Farm Financial Situation

The credit and financial situation of farmers as a whole has improved in 1961 over a large part of the country. Underlying the improvement has been the increase in farm income and a resumption in the rise of farm real estate values which came to a temporary halt in 1960. This improvement is expected to carry forward and perhaps increase somewhat in 1962.

The total value of all farm assets is expected to attain a record high level of about \$211 billion by the beginning of 1962. This is an increase of about \$5.2 billion or 2-1/2 percent above a year earlier. The renewed rise in land values is the principal cause of this increase, though other physical assets are expected to be up about a billion dollars.

Farm debts have shown a substantial rise of about \$1.8 billion and are expected to total about \$27.2 billion by the beginning of 1962. However, the rise in debt is less than the rise in assets so that the equities of farmers and other owners of farm property are expected to show an increase of from 3-3 1/2 billion dollars for the year as a whole. Percentage-wise, debts appear to be increasing somewhat faster than the value of farm assets, and the ratio of all farm debts (including CCC loans) to the value of farm assets is expected to approximate 13 percent by the beginning of 1962. This compares with a ratio of 12.3 percent at the beginning of this year.

Farmers' holdings of currency and bank deposits fell off substantially in 1959 and again in 1960, but indications are that they were reduced only slightly this year. Probably the higher farm income in 1961 arrested the decline. Borrowing by farmers for current production purposes has shown little increase in 1961 over 1960. Expenditures for motor vehicles and farm equipment have remained at a reduced level and there has been little change in the number of cattle on feed. Payments under the Feed Grain Program also reduced needs for production credit.

Farm real estate values continue to be a matter of considerable interest (Figure 7). The renewed strength in the land market appears to be related both to the rapid recovery in the nonfarm sector since last spring and the higher level of farm incomes in 1961. The annual imputed return on market values of farm real estate continues to be less than 4 percent. The 1960 rate was 3.3 percent, and is not expected to increase significantly either this year or next because of a probable further rise in market values.

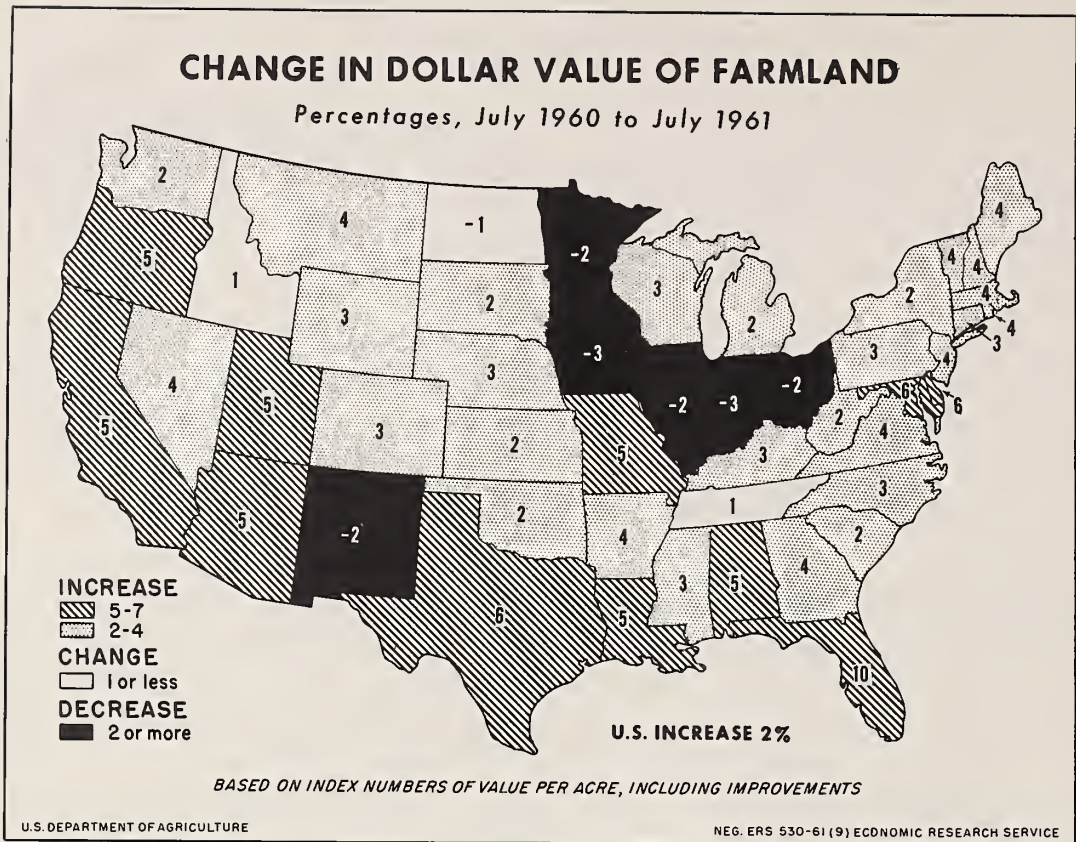


Figure 7

Despite the current and prospective unfavorable relationship between land prices and net returns, farmers continue to seek additional land for farm enlargement. Nationally, 46 percent of the sales in 1960-61 were for this purpose, nearly double the proportion of a decade ago. More than half of the sales in the Corn Belt and wheat areas were for additions to existing farms, with the farmers making these additions generally those already operating larger-than-average farms in their communities.

Family Living

From the viewpoint of family living the most significant developments have been the rapid increase in total disposable personal income in the last two quarters; the sharp advance in the realized net income of farm operators for the year as a whole; and the small increase in retail prices over the past 12 months.

Prices paid for goods and services used by families, as measured by the Consumer Price Index, increased about 1 percent during the year ending

September 1961. This was at about one-half the annual average rate of increase of the preceding six years, and all the major categories shared in the slowing down in the rate of increase.

When price changes at the retail level are taken into account, consumer incomes per person in the U. S. will show a small gain over last year, while the buying power of farm families taken as a whole will show a very appreciable increase due to the marked improvement in farm income.

Prices for services have advanced much more sharply than have prices for commodities in recent years, and family spending patterns in the economy as a whole have shown an increase in the proportion of expenditures for services during the past decade (Figure 8). This increase in spending for services is substantially more than can be accounted for by increased charges for such services. In terms of constant dollars, personal consumption expenditures have increased about 26 percent between 1955 and 1960, compared with 11 percent for commodities.

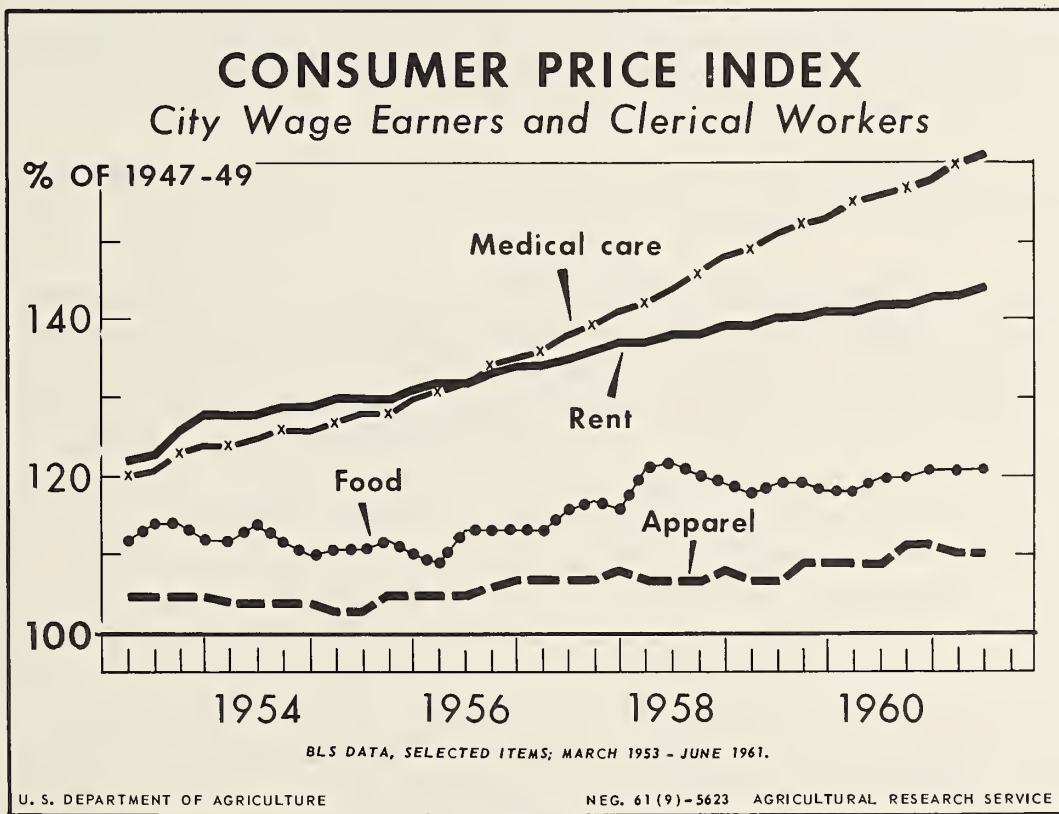


Figure 8

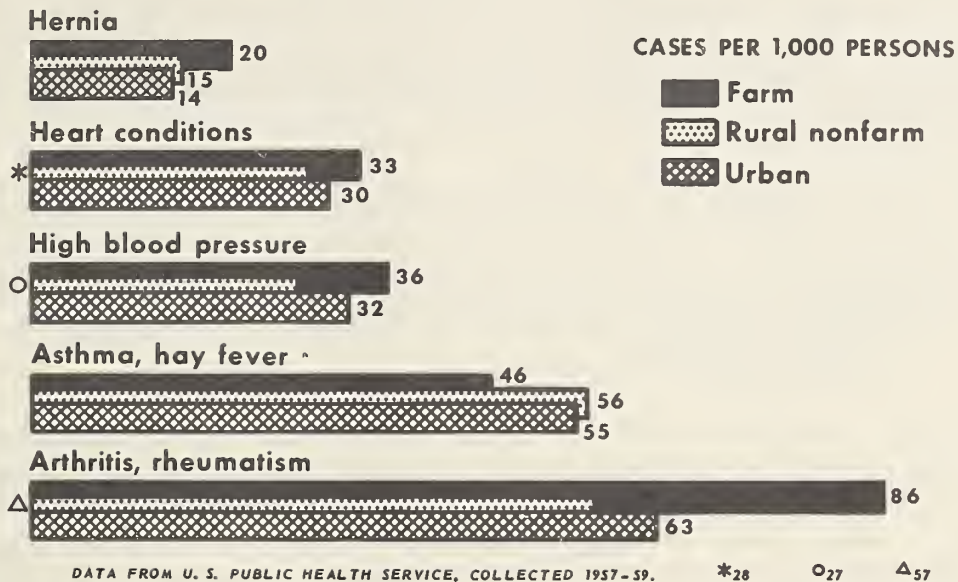
Prices for services will probably continue to rise, at least in the near future, and this upward trend will be mainly responsible for a further small advance in the consumer price index during the coming year. Consumer incomes, however, are expected to continue to rise in 1962, resulting in a substantial gain in real consumer income per person. However, the buying power of farm families may not change appreciably from this year's level. Consumer prices are expected to show a small increase relative to realized net income of farm operators, but this may be offset in part by larger opportunities to supplement farm income by nonfarm earnings and by further contractions in the size of the farm population.

Many families are seeking ways to reduce expenditures for services, or to protect themselves against unusual outlays. In the area of medical care, for example, for which prices in urban areas have advanced 26 percent since September 1955, an increasing number of families are taking out medical insurance. According to the Public Health Service, 67 percent of U. S. families had hospital insurance, 62 percent had surgical insurance, and 19 percent had doctor visit insurance in 1959. This is an area where differences between farm and urban levels of living persist. A substantially smaller proportion of farm families had such insurance than did rural nonfarm and urban families. Yet at the same time, farm families have as much or more need for medical care services than do other groups in the population. This is indicated by the relatively high incidence of chronic illness among farm people (Figure 9).

Government action in two areas--social security and housing--will contribute to a better level of family living next year and in subsequent years.

Under the Housing Act of 1961, many families will find it easier to obtain loans to repair or remodel their present homes or acquire new ones in the coming year. Some of the provisions have special application to rural areas. The Farmers Home Administration is now authorized to make loans to families living in rural areas, even though not engaged in farming. Many of these families are not served by other housing programs and cannot qualify for credit from conventional sources. This bill also provides that a small loan to modernize or repair a farm dwelling may be made without requiring a mortgage on the farm, thus cutting down loan closing costs and speeding up loan making. Another feature of this bill that may lead to an improvement in the living conditions for many low-income rural families is that loans may be used to provide necessary wells for household water. The authority to make a loan for constructing a new farm dwelling or for construction improvements on an existing one is continued.

Many Chronic Illnesses Higher Among Farm People



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Figure 9

Many older families, a group that is likely to be especially affected by rising service costs, will benefit in the coming year from several amendments to our Social Security law, effective August 1961. The minimum benefit paid most workers over 65 has been raised from \$33 per month to \$40; most aged widows' benefits have been increased by 10 percent. For the second successive year, the amount of money a beneficiary can earn without a commensurate loss of benefits has been raised. Men may now choose to have their old-age benefits start at 62, rather than wait until they are 65; women have had this privilege since 1956. However, lower retirement benefits are paid to men and women who retire before they are 65.

The many families subject to social security taxes--whether as employees, employers, or self-employed--will find these taxes slightly higher beginning in January 1962. Taxes will go up from 3 to 3-1/8 percent for employees and employers and from 4.5 to 4.7 percent for self-employed people.

Food Supplies and Consumption

Prospective food supplies, per capita food consumption, and the nutritive value of that consumption exhibit no striking changes. With abundant supplies of livestock products and food crops assured for 1962, retail food prices are not likely to average much higher than in 1961. But with the higher consumer incomes forecast for next year, per capita food consumption may again increase slightly.

The newest elements in the food picture are to be found in the food distribution programs of the USDA. This is made up of a group of five inter-related programs: (1) Plentiful Foods Program, (2) National School Lunch Program, (3) Special Milk Program, (4) Direct Distribution Program, and (5) Pilot Food Stamp Projects.

The last two programs represent the areas of greatest change compared with last year. Under the Direct Distribution Program, Federally-owned foods are donated to schools, charitable institutions and needy families through the facilities of State and local governments. Nearly 24 million people are currently benefiting from this program. Included in the total are 16 million school children, 6 million members of needy families, and about 1.5 million older people in charitable institutions. There has been a marked increase in the quantities and varieties of foods made available for needy families. At the end of last year about 3.7 million persons in needy families received donated foods with an average retail value of about \$3.00 per person each month. Currently, there are more than 6 million persons in the program, with an average monthly retail value of about \$6.00.

The newest element in the food distribution picture is the pilot food stamp project being operated in 8 selected sections of the country for the purpose of testing the operation of the plan under widely varying conditions. Under the plan, low-income families use the amount of money they would normally be expected to spend for food to obtain food coupons having a higher money value. With these coupons they purchase food in regular retail stores at prevailing prices. In September, approximately 138,000 persons bought coupons at a cost of \$1.7 million, but having a food purchasing value of about \$2.7 million.

A number of evaluation studies were launched concurrently with the pilot program, and the results of these will presumably have considerable bearing on the future scope and character of this type of distribution.

Marketing Costs

As with food supplies, no great changes have taken place in marketing charges for farm food products during the past year, nor are large changes anticipated in 1962.

Charges for marketing food products from U. S. farms will probably average about 2 percent higher this year than last, continuing the long-term upward trend that began during World War II. The retail cost of food in the market basket will be a little higher than in 1960, but the farm value will be down slightly (Figure 10).

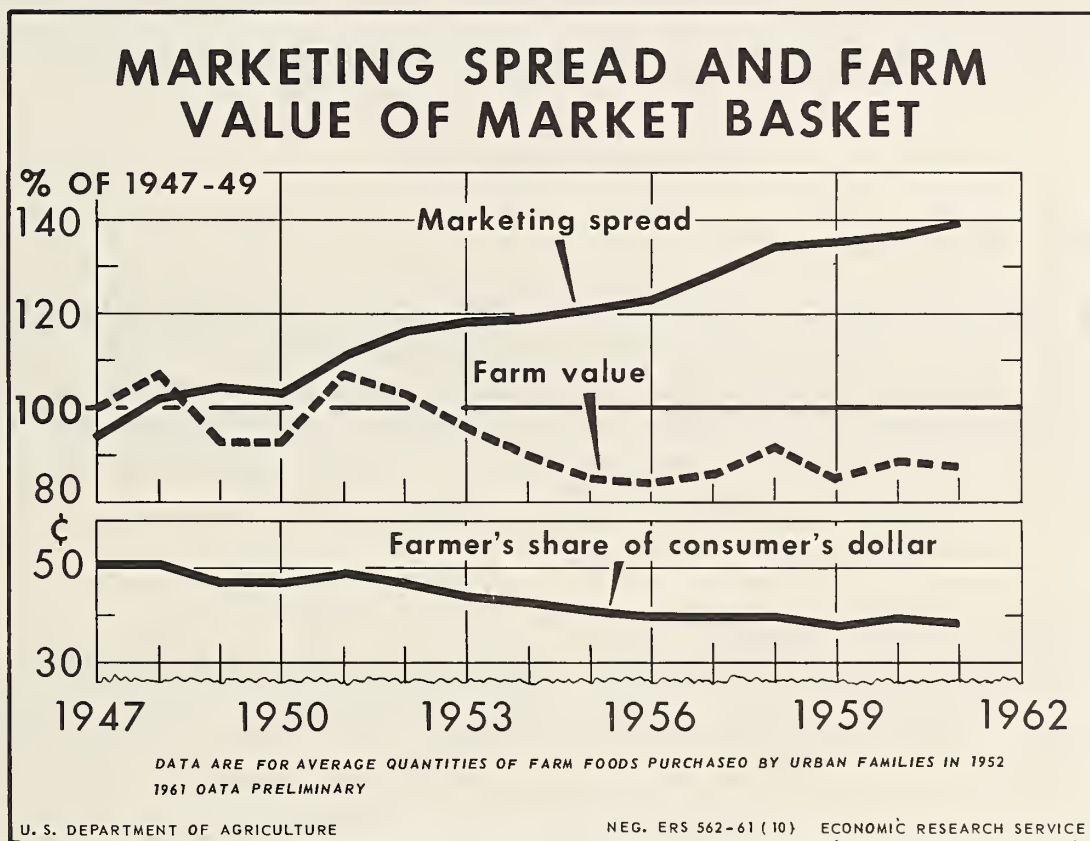


Figure 10

The prospect for 1962 is similar, with marketing charges expected to average 1 or 2 percent higher per unit of product than in 1961. Retail costs are again expected to rise slightly.

Hourly earnings of food market employees have climbed at an almost steady rate of 4 percent in recent years and no slackening of this rate is

in prospect. However, improvements in productivity should keep labor costs from rising as much as wages and salaries. Transportation charges will probably not change greatly. The growing population and rising consumer incomes are expected to strengthen the demand for food marketing services, but not enough to have much effect on marketing charges.

As marketing charges have risen, retail costs of farm foods have tended to rise and the farm value to fall. In all of the 8 years, 1954-61, the farm value has been below the level attained in 1953. It will average about 10 percent lower in 1961 than in 1953. On the other hand, retail costs this year will average about 6 percent above 1953. These divergent movements have reduced the farmer's share of the consumer's retail food dollar from 44 cents in 1953 to about 38 cents this year. With the same forces at work in 1962, the farmer's share may drop to about 37 cents.

Commodity Highlights

Livestock and Meat

A record output of red meat is expected in 1962 accompanied by a small increase in per capita consumption. Increased production of both beef and pork are in prospect. Production of lamb and mutton is expected to be down. Some improvement in fed cattle prices is likely, but lower prices are expected for cows. Hog prices are expected to average slightly lower in 1962 than in 1961, but some recovery in lamb prices seems likely.

Milk

Milk production in 1962 again is expected to register another significant increase as it did in 1961. Not much change is anticipated in aggregate consumption of dairy products. CCC purchases in 1962 will exceed the large purchases in 1961. Prices to farmers and consumers through next March are expected to be at about current levels. Thereafter, the level of price supports to be announced before April 1 will be an important determinant of dairy prices.

Poultry and Eggs

Production of eggs next year is expected to be a little above the 170 million cases in prospect for 1961, and egg prices to producers are likely to average below the 36 cents per dozen indicated for 1961. Heavy broiler production appears to be in prospect for 1962 despite record low prices in 1961, and the

turkey crop in 1962 is again likely to be large. The turkey situation could be influenced by proposed marketing orders if these are approved by producers and take effect relatively early in 1962.

Fats and Oils

Total supply of edible fats, oils, and oilseeds during the 1961-62 marketing year is forecast at a record 16.1 billion pounds. This is about 15 percent higher than last year and is due largely to the record soybean crop of 1961. Even though exports and domestic use are expected to be record large, the carryover of around 75 million bushels of soybeans is likely next October 1. Due to the price support program, the season average price received by farmers for 1961 crop soybeans is forecast at \$2.30 a bushel, about 5 percent above the year before.

Feed Grains

The total supply of feed grains and other concentrates for 1961-62 is down 7 million tons from the record supply of last year. This is the first interruption of the steady upward trend in feed concentrate supplies that began in 1952. Total utilization and exports are expected to exceed the 1961 crop for the first time in 10 years, reducing carryover into 1962-63 by around 5 million tons below the record carryover of 84 million tons for 1961-62.

Wheat

Total wheat supply for the 1961-62 marketing year is estimated at 2.6 billion bushels, down slightly from the record high of last season. The carryover on July 1, 1962 is expected to be around 1.4 billion bushels, somewhat below July of this year, and the first drop in stocks since 1958. However, total supplies continue to represent about 2 year's domestic use and export.

Cotton

With the 1961 crop now estimated at 14.5 million bales and 1961-62 exports expected to be around a million bales less than in 1960-61, the carryover of cotton on August 1, 1962 will likely be about 400,000 bales higher than the 7.2 million bales on hand August 1 of this year. This will be equal to the 1960 carryover, but well below the very high carryover of 1954 to 1959.

Tobacco

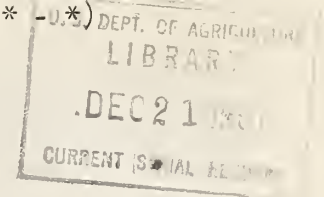
Total supplies of flue-cured, burley and most other kinds of tobacco in 1961-62 will be fairly close to their 1961 levels. Consumption of both cigarettes and cigars are up this year from last, with further gains likely in 1962. Exports of leaf tobacco in the fiscal year 1960-61 were the largest in 5 years, but may show a small decline in 1961-62.

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Cap. 2

OUTLOOK FOR CLOTHING AND TEXTILES
(DOMESTIC SUPPLIES AND PRICES)

Talk by Doris P. Rothwell
U.S. Department of Labor

at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 9:15 A.M., Wednesday, November 15, 1961



The outlook for textiles and apparel should be examined in the framework of general economic forecasts. Among factors to be reckoned with are: The expectation of continued growth in the U.S. economy; the probability of about $1\frac{1}{2}$ to 2 percent a year price rise allowed for by prognosticators; the almost certain sharp rise in population; and the continuation of the rising trend in personal incomes and the standard of living. Naturally all forecasts are contingent upon continued peacetime conditions.

For textiles and apparel there are many other factors to be considered. As I review these fields, I am impressed by their complexities--of the articles produced and the materials used, of the industry structure and the patterns of distribution, and of the forces of demand and supply which influence production and prices. I shall not attempt to synthesize all these facets into a numerical forecast, but will discuss what has been happening recently to some of them and what might reasonably be expected in the near future; I shall leave the overall evaluation to you.

The complexities of these industries are illustrated by the several stages of production, the thousands of individual small firms, the numbers of competing fibers with many new ones to come, the upsetting influences of foreign competition and of cyclical changes in demand and supply, and the difficulties imposed by low profit margins on operating conditions; and, of course, by continuously changing styles.

The economy as a whole is at present in a recovery stage. Personal incomes, which reached a record \$400 billion in 1960, are at a still higher rate this year. Industrial production has turned upward. Textile production during the recent recession had dropped more sharply than total production. The Federal Reserve Board's Index of Industrial Production fell from 111 in January 1960 (1957=100) to 102 (its recession low), in January 1961, and textile production from 112 to 98. This year, however, the textile industry has recovered materially. While total industrial production, seasonally adjusted, rose 11 percent to 113 by August, textile production reached 116, up 17 percent.

Price Developments

In discussing price trends for apparel, I must emphasize that this industry produces to meet established price lines. For a time it meets competition and covers increasing costs by cutting corners in imperceptible ways. Eventually, however, the pressure of increasing costs results in outright price increases or, more usually, in producing to higher price lines.

Price changes on goods of comparable quality both at wholesale and retail normally are moderate. Competition is so keen and there are so many firms, that price making is materially influenced by actions of competitors. In primary markets, average prices of textile products, as measured for the Government's official Indexes, have been running below their 1947-49 averages. Prices of raw materials are lower than in 1947-49 and wage rates have risen less than in other industries. The index for textile products and apparel in September 1961 was 94.4. At retail, as a result, prices have shown only a moderate increase since 1947-49 and, as shown in chart 1, less than for other commodity groups.

During 1960 and the first half of this year the textile industry was in a depressed state. Prices in primary markets had tended downward. The index for textile products and apparel dropped to a low of 93.7 (1947-49=100) in June 1961, as most major fiber components declined. Cotton products decreased from 95.0 in December 1959 to 89.5 in June 1961; wool products from 104.2 to 99.5 in March 1961, and manmade fiber products from 81.3 to 75.1 in June 1961. Wholesale prices of apparel also were slightly down.

Beginning about mid-1961, wholesale prices of textile products turned upward a little, partly in keeping with the general business recovery, but also because of increased costs. Raw cotton prices have risen over 11 percent so far this year. By September 1961, cotton products were up 1.7 percent from their lows earlier this year and wool products 2.3 percent. Prices of man-made fiber products have remained at their June 1961 level.

The effect of higher wholesale costs has been carried over into retail prices. In September 1961 the apparel component of the BLS Consumer Price Index was at a level of 111.1 (1947-49=100), slightly higher than a year ago. In general, this reflected the introduction of new fall merchandise at higher prices than at the end of the previous selling season. The midyear upturn was most noticable for women's and girls' apparel which rose 2.7 percent during the third quarter of this year. In September prices were 1 percent above a year ago.

Predicting the probable course of prices even for a year or so is presumptuous. We know, of course, of a number of forces tending to push costs up. One of some importance is the effect of the increase in minimum wage to \$1.15 an hour which went into effect September 3, and the further increase to \$1.25 to become effective 2 years hence. Not only does this mean that textile workers below the minimum must be given pay raises, but that better skilled and senior workers in some cases will be raised to maintain established pay differentials. On top of other cost increases, the pay raises probably mean price advances.

A survey of members by the Southern Garment Manufacturers Association this summer disclosed that nearly 80 percent intended to boost prices, many of them by 5 to 10 percent. Should such increases occur, probably only part will be due to higher wages. In another field, hosiery manufacturers have estimated the effect of this year's wage increase at an overall rise of 8.3 percent in labor costs, or the equivalent of about 25 cents per dozen pairs of hose in total manufacturing costs. One large manufacturer has planned to raise prices of men's work clothing items about \$1.00 per dozen to cover both higher costs of cotton and higher wages.

Higher prices of raw cotton have already been reflected in higher prices for cotton yarns and broadwoven goods and further increases are likely. Spot cotton prices increased rather steadily this year following the February announcement by the Department of Agriculture of the support level for the 1961-62 season beginning August 1, 1961. Between December 1960 and October 1961 (most recent month for which prices are available) the average 14 market spot price for 1 inch middling rose $3\frac{1}{2}$ cents or 11.4 percent. The price gain is likely to affect prices of manufactured products. According to one industry spokesman higher prices for cotton goods are "inevitable." Prices of sheets and pillowcases already have been raised.

There are, however, restraining influences which should temper the price rise. Chief among them is competition, both domestic and foreign.

Total textile imports in 1960 were at a record level. Imports particularly from low-wage countries such as Hong Kong and Japan continue to pose a threat of strong price competition to our domestic textile producers. The import situation is serious enough that it is receiving special attention from the Federal Government. Following a special emergency meeting of the international GATT Committee, cotton textile imports from low-wage countries were temporarily frozen at the levels prevailing on October 1 of this year. Although this does not solve the problem, at least it checks further expansion of imports for the time being. Later in October the 17 member nations of the committee met in Geneva to seek a more long-range solution to the problem of international trade in textiles, which involves many political and economic aspects outside of the field of textiles itself.

On the supply side it is important to note that productive facilities are more than ample. Also there are possibilities for more efficient operation and greater automation which should improve productivity and eventually reduce costs. In 1958 it was said that three-fourths of manufacturing equipment in the industry was obsolete. Only one-fifth of spindles in use at the end of last year were 10 years old or less. During 1960 capital expenditures for improvement of textile plants and equipment were the highest since 1951. Although they have been reduced this year, the recent tax incentive providing more liberal depreciation allowances on equipment in the textile industry should help speed the retirement of obsolete equipment. As a result the industry may be embarking upon a period of extensive modernization of plant and equipment.

Consumers' attitudes and actions will also have much to do with the course of prices. Buyers now are much more knowledgeable about qualities than they used to be and expect value for a price. Their present attitude toward apparel prices has two seemingly opposite aspects. On the one hand they are willing to pay a premium for good quality; on the other, for style goods, they are satisfied with less durable articles if they can be obtained more cheaply. The first attitude comes from the generally high levels of personal income resulting in upgrading of purchasing. The second indicates consumers' desire for modern new styles and their realization that clothes can become outmoded before they wear out.

Consumers' desire for good quality manifests itself in a number of ways. It accounts for the acceptance of manmade fibers even though they frequently mean higher price tags, because they possess special qualities not possible in the natural fibers. It explains the importance attached to brand names

and labels such as Dacron, Acrilan, or finishes such as Everfast, Sanforized-Plus which convey to the consumer a guarantee of quality. It has brought trading-up of quality and prices in many lines. In pricing apparel for the BLS Consumer Price Index, we frequently find it necessary to take account of shifts in popularity of given qualities. For example, the Bureau is now pricing men's slacks of washable manmade fiber blends in year-round weights in addition to the 100 percent rayon and acetate slacks. Many of our specifications have been widened to include new fabrics, some of which command higher prices. Recently we provided a specification for boys' polo shirts of the more expensive collar type as an alternate to the crew type formerly priced. Our boys' style women's shorts specification was broadened to include Jamaica and Bermuda styles.

This tendency to trading up in prices is clearly illustrated in this year's Daily News Record Wash and Wear Study. According to its findings, major national brand firms introduced higher price lines for men's summer suits this year. Although the biggest volume seller among men's dacron polyester fibercotton wash and wear summer suits was again rated as \$39.95 this spring, the second best seller was \$32.95 compared to \$29.95 and the third best \$35 compared to \$30. In all-cotton wash and wear suits the volume seller this year was \$17.95; last year \$15.95. This "trading up" was all the more interesting inasmuch as wash and wear business was a little lower than last year.

Dress manufacturers too have been producing better quality but in higher price lines. To a great extent this is one means of covering increased costs, generally preferred, when consumers will accept it, to depreciating quality and selling at unchanged prices. Fairchild's Blue Book Trade Directory now lists in the "Budget Classification" those manufacturers making street dresses to retail at \$22.99, up \$6.00 from the level of about 5 years ago. Blouses manufactured to retail at \$5.99 to \$6.50, now are classed as "popular-priced" where formerly \$4.99 was the upper limit. The "medium price" class for blouses now extends up to \$11.99 retail, up about \$3.00 from 5 years ago. Raincoats in fancy new fabrics and style are fashion items with prices up to \$70 or \$80 contrasted with \$25 for the utilitarian garments formerly offered.

A mark of the opposite view of consumers toward prices is the growth of non-nationally advertised brands of some articles, especially shirts, underwear, socks, hose, etc. Since the consumer is heavily influenced by the advertised trade names of manufacturers, national brands generally sell at premiums over nonnationally advertised ones. This is such an established practice that for a number of items, e.g., men's shirts and women's hose, BLS finds it necessary to collect prices of both types for its Consumer Price Index. To avoid price cutting, manufacturers of national brands resist selling outside of established retail trade channels. Supermarkets, drug chains, and discount retailers, therefore, provide a natural market for lower priced nonnationally advertised brands, sometimes featuring items made from nationally known yarns or fabrics.

Another illustration of the second attitude of consumers is the growing popularity of nonleather shoes and of casual, play-shoe types which have a shorter life than leather shoes but are lower priced. In 1960, only 28 percent of shoes produced had leather soles, down from $31\frac{1}{2}$ percent in 1959, and from 51 percent in 1950; 76 percent had leather uppers, compared with 84 percent in 1950. Particularly striking is the growth of sneakers, both for teenagers and adults, which usually sell for less than half the price of leather shoes. The National Shoe Manufacturer's Association estimates that sneakers will amount to a hefty 17 percent of the number of all shoes sold next year compared to 8.5 percent in 1955. A large part of them will be low-cost imports from Japan.

Fashions

Marked shifts in styles are not usual for footwear but they are customary for other apparel and are in fact fostered by the industry. Moreover, fashion trends are changing, not just in the fickle way which brought the "new look" a few years ago or which caused women to shorten last year's dated dresses this summer, but in more fundamental ways. These changes are affecting wearing apparel for men, women, and children. Textile writers speak of sophistication and of a "cultural upsurge" in tastes, which manifests itself in studiously casual attire, and in simple but elegant dressup clothes. More leisure time, suburban living, and the new American informality in living, have brought new demands for "leisure" clothing, largely sportswear. Fashions in clothes, formerly a female prerogative, now are affecting men too. Gay sports shirts and slacks for men are relatively new on the American scene and are an important and growing influence in the total picture. Formerly custom tailored for upper bracket society, such articles are now mass produced for middle-income people. Children's wear used to be chiefly utilitarian. Now it must be attractive as well. Bouffant dresses and nylon underwear of pleasing patterns and styles are being produced for them in volume.

Casual Wear

The American way of life has had a pronounced effect on the kinds of clothes people want and it is an influence which will continue. At one time sportswear was worn only for sports and outdoor activities. Work clothing was serviceable, durable and not very attractive. Nowadays casual clothing is worn on many occasions--in the home and often on the job. Work clothing is better styled and often colorful, and the two classifications are no longer distinct.

An examination of relative production trends (as reported by the Bureau of the Census in its Current Industrial Reports) points up the changes. Output of men's and boys' sports shirts more than tripled between 1946 and 1959, replacing work shirts to a great extent. During this period work shirts production actually declined from well over 5½ million dozen a year to something over 4 million by 1959. Moreover many of the so-called work shirts were produced with sports collars and short sleeves.

Similar trends are evident for men's and boys' trousers. Men's and boys' bib overalls have declined to less than a third of their 1947 production. Apparently work pants, styled more like sports slacks, are taking over from dungarees and overalls. Output of men's dungarees and waistband overalls by 1959 was less than a third of 1947 while output of men's work pants was up considerably; that of men's and boys' cotton slacks went up 2 or 3 times in the last 5 years.

Changes in fabrics used, which have been great, reflect the influence of demand for leisure time clothing. Twills are most common, particularly for work clothing, and matched sets are particularly popular, replacing denim overalls and chambray shirts in combination. Other fabrics used include shirtings, sateens, poplins, corduroy, and bedford cord. Cotton is still by far the dominant fiber, for men particularly, largely because of the higher cost of manmade fibers, but manmade fiber wash and wears are making some inroads for leisure clothing.

The nature of population changes in the 1960-70 decade will have a real impact on the demand for leisure apparel and work clothing. A large part of the growth in total population will be of the young and the old, both of whom use leisure wear extensively. According to Census estimates, the 15- to 19-year-old teenagers will increase most rapidly--from 13.4 million in 1960 to 19.3 million in 1970. For this group, style is most important and to please them producers must keep on their toes to keep up with changing fads.

The older age group, 65 and over, has been growing in importance and will continue to do so. By 1970 it may comprise $19\frac{1}{2}$ million people, over 9 percent of the total population. Together with retired people some of whom are less than 65, their apparel needs have become important. Their average income has increased and much more rapidly than for other groups, reflecting the spread of pension plans and private insurance.

Occupational changes also will affect demand. Agricultural and manual production workers will decline but service workers, who like nice looking clothes and snappy uniforms, will rise over 50 percent. Some of the loss due to the decrease in manual workers will be made-up by the demands of do-it-yourself home owners.

Wash and Wear

No discussion of textiles can omit wash and wear, boon of the American housewife, for whom ironing is probably the most hateful household chore. Wash and wear is important for casual wear but also for other clothing, notably men's dress shirts and women's dresses. It has declined a little in importance, possibly because of the extravagant claims first made for it. Housewives now recognize and accept the need for a little ironing on most articles. If some of the new processes now being developed prove successful, wash and wear's share of the market will surely mount again. One of the most significant new processes is a nonresinous finish, obtained by a chemical reaction with the cotton fibers. This should last the life of the garment while the resin finishes now used not only wear off in washing, but also often yellow because of their affinity to chlorine. One of these is being offered by General Aniline and Van Heusen in the Century Vanalux men's shirts under the trade name Ganalok to retail for \$5. Cluett-Peabody's Sanforized-Plus men's shirts is another carrying an unconditional wash and wear guarantee.

Textile Fibers

Now let me turn to the changes occurring in textile fibers. The "battle of the fibers" had become almost a cliché in textiles. Now the problem is not so much survival as of assimilation--of combining the beauty and comfort of the natural fibers with the utility of the manmade.

A trend to watch is the use of lighter weight fabrics, induced largely by changes in living conditions and made possible by the advent of new fibers of high strength. This trend has been noticeable in the past few years and may continue to some extent. For example, from 1951 to 1958 average fiber per unit decreased from 3.40 pounds to 2.88 pounds for overcoats, topcoats, and storm coats; and for men's and boys' suits, from 2.94 pounds in 1952 to 2.50 pounds in 1958.

The dominance of cotton is not yet seriously challenged for consumer goods, probably because it combines many good qualities at a low price but it has lost ground to manmade fibers especially for industrial textiles. New finishes to provide better wash and wear qualities and the blending of cotton with synthetics in many fabrics will promote the popularity of cotton. In 1940, 80 percent of fiber consumption in the United States was cotton. By 1950, cotton represented 66 percent of the total as rayon and acetate increased, and by 1960 cotton had dropped further to 62 percent as other man-made fibers gained. In total quantity, however, cotton consumption has remained fairly stable and is likely to increase.

Silk is a small fraction of the total, but it is tops in elegance and there are signs of increasing demand, particularly if current experiments with washable and stain-resistant finishes prove successful. A return of silk stockings is not impossible. Wool has held at a fairly steady 9 to 12 percent of consumption from as far back as 1920. It is still preferred for warmth.

Manmade fibers have grown abruptly from negligible amounts around 1913 when rayon was first produced commercially in this country to 11 percent in 1940, and to about 23 percent in 1950. Last year manmade fibers represented over 30 percent of fiber consumption as the new miracle fibers came into prominence and continued to open up new markets for textiles. For example, synthetics represent one-third of fibers used for floor coverings and are most important for tires. Despite its rapid growth, the field of completely synthetic fibers is still in the early stages of development. The number of potential chemical constructions is virtually unlimited. Already we have several hundred with many more under study. In 1910 American Viscose alone had one type rayon; in 1960, 109 different manmade fibers. A most bewildering picture for both consumer and producer! Blending of different constructions is still undergoing research by major chemical and textile firms. Gradually, the best combinations of different fibers are proving themselves. Among effective blends for apparel are dacron 65 percent with rayon or cotton; dacron 50 percent and orlon 50 percent; and dacron 50 to 55 percent with wool.

Last year's total world consumption of textile fibers was about 10 to 13 pounds per capita. In the United States, where the new synthetic fibers have been accepted more rapidly, they represent 30 to 35 percent of textile production. With the anticipated growth of United States and world populations, textile needs by the year 2000 have been estimated $1\frac{1}{2}$ at 40 million tons of fibers of which nearly 60 percent must be met by the manmade fibers.

Textile Labeling

The new fibers have brought identification problems. Until last year only wool products and furs, among textile products, were required by law to carry proper descriptive labels. In the absence of regulations, many labels were used which carried misleading implications for consumers. The Wool Products Labeling Act has been law since 1941; the Fur Products Labeling Act since 1952. Both of these have been effective in minimizing deceptive claims

1/ Whither Man-Made Fibers? by Charles de Cizancourt, American Fabrics, Summer 1960.

and in defining quality for the customer. They also accustomed the public to the value of proper identification of material content for wearing apparel.

The Textile Fiber Products Identification Act, which went into effect March 3, 1960 after years of effort, was a major achievement, particularly so since the advances in chemistry of fibers have made it impossible to recognize fibers by feel as we used to.

The Act was designed to protect both producers and consumers against misbranding and false advertising of the fiber content of textile products. Support for its passage came from textile producers, from the cleaning and dyeing industries, from consumers, and from agencies of Government.

The Act requires that for the types of garments covered, the relative proportions of fibers making up 5 percent or more of the fabric must be indicated on an appropriate label. The two older Acts remain in force for items already so covered. The new Act permits the use of trade names but only in conjunction with fiber types. An important contribution was the standardization of nomenclature for the multiplicity of manmade fibers, with fiber types and trade marks intermingled, previously confronting the consumer and the small textile producer. The Federal Trade Commission has listed 16 generic manmade fibers, defined in terms of chemical composition and structure so as to be unambiguous. Though these at the moment may seem of little benefit since they are so unfamiliar and technical, the terms will in time become known and consumers will learn to classify the different brand names falling under each type. The 16 names are: acetate, acrylic, azlon, glass, metallic, modacrylic, nylon (nytril, olefin, polyester, rayon), rubber, saran, spandex, vinal, and vinyon. To mention some of the best known trademarks acrylic fibers include among others acrilon and orlon. Polyester fibers include dacron. Rayon includes Bemberg, Celanese, Fortisan, etc.

Weaknesses of the Act are that it does not include performance standards, and that once the labels are detached the consumer forgets the content. However, a great deal is being done by the American Standards Association, the National Retail Merchants Association, the National Institute of Dry Cleaning, and individual manufacturers to promote standards. One of the consumer's greatest problems is to be sure of proper methods of washing and ironing. An ingenious symbolic marking system to indicate proper treatment has been worked out. The symbols indicate whether the garment should be washed, using cold or warm water, or dry cleaned; how it should be dried and how it should be ironed. Already in use by many manufacturers, the symbols are stamped, printed, sewed, or cemented permanently to the garment. They are nearly self-explanatory.

From another angle, more work is going on testing of textiles than the consumer realizes. It is a fairly new field of endeavor made necessary by the many fabric blends found today. Companies operate their own laboratories to test products purchased. One well-known laboratory uses as many as 35 different physical, chemical, or optical tests to determine composition, to measure performance, and to evaluate quality. The Department of Agriculture itself is continuing its work in this area. Much research and testing by the chemical producer goes into the production of new fabrics or a new finish. For example, Sanforized-Plus, a trademark announced in the fall of 1959, which carries an unconditional wash and wear guarantee, was 3 years in study. This label represents a performance standard for the consumer. The new Gana-lok nonresinous finish recently offered for men's shirts may become another consumer byword.

There is still, however, room for education of the public in the characteristics of fabrics and particularly in their performance. I foresee emphasis on this in the coming years.

New Developments

In what I have said already, I have touched on some new developments. There have been so many more that it is not possible to list them all but I will cite a few which seem especially interesting.

A recent innovation in retail distribution is the "self-service soft goods supermarket," sometimes called "discount department store." By 1960 business in such outlets was estimated at 6 to 7 percent of retail sales of general merchandise and apparel stores. These items are self-service with shopping carts and checkout counters, operating at a lower markup (about 20 to 30 percent of sales compared to the usual 35 to 40 percent for apparel), offering a narrower range of prices and catering to lower and lower-middle income families. Usually the stores are large, all on one floor, away from downtown, and with huge parking areas. Their history has been much like that of the food supermarkets. They began in dingy old warehouse buildings, offering distress merchandise and bargain prices. Now they are modernizing, locating in new buildings with modern lighting and fixtures, including air conditioning. The quality of merchandise carried is being upgraded.

A part of this trend is integration with food and drug stores. I read recently that Walgreen's was planning to sell some men's white dress shirts from Hong Kong under a private label. Food supermarkets for some time have been expanding their merchandise lines to include more nonfoods. Some old department stores are introducing self-service in some departments. This retailing change is a competitive influence which is likely to bring lower margins and possibly lower prices, in the same way as did the discount appliance stores a few years ago.

In the field of production it appears likely that major strides toward modernization of plant and equipment are in the offing. In recent years great technological advances have been made and more are expected. For example, shuttleless looms, now used for coarse cloth may become adaptable to other fabrics. Another invention is the automatic spinning mill. New four-feed hosiery knitting machines, which can produce about 3000 dozen pairs annually compared to 1000 and 1500 dozen pairs by the present single- and twin-feed machines, have been perfected.

Among really new product ideas can be mentioned nylon zippers, paper blankets, and, from Paris, fur coats slit up the back beginning at the shoulder blades, with a good overlap. Apparently, one shouldn't sit on fur! For wool fabrics I hear of drip-dry woollens from Australia and a new finish to provide permanent pleating. Washable wool blankets are said to be generally available now. The Department of Agriculture has worked out a wool shrinking process called "interfacial polymerization" which is the application of a permanent plastic skin to the wool fabric. Recently, the Department of Agriculture announced a new formaldehyde process for a wash-and-wear finish for cottons which will be more durable than present ones. It is said that fabric so treated will not wrinkle when tumble dried and is not yellowed or discolored by bleach.

A recent innovation is stretch fabrics for women's skirts. Stretch wool suits are to be tested this fall in the market. By mid-1962 Dupont's plant for production of its Lycra Spandex fabric will be in full operation. It may find a competitor in Eastman's new polyester elastic fiber T-1700. A new acid dyeing acrylic fiber, orlon type 44, is being offered this fall for a few items, principally sweaters, and should be in full commercial output by fall 1962. Dupont is experimenting with a new synthetic to replace shoe leather. It is said to weigh only 2/3 as much. Pilot production is scheduled for late 1963.

Just recently, Berkshire Knitting Mills announced its plans to introduce a revolutionary new woman's stocking next month called "Ultrason" because it will be manufactured in part with ultrasonic equipment! Presumably the process has already been tried in some other countries. It would seem that there is no end to new discoveries for textiles!

To sum up, 1962 should bring many textile novelties and despite many problems, be a good year for textiles.

Chart I.

CONSUMER PRICE INDEX **All Items and Apparel** **1947-61**

1947-49=100 INDEX

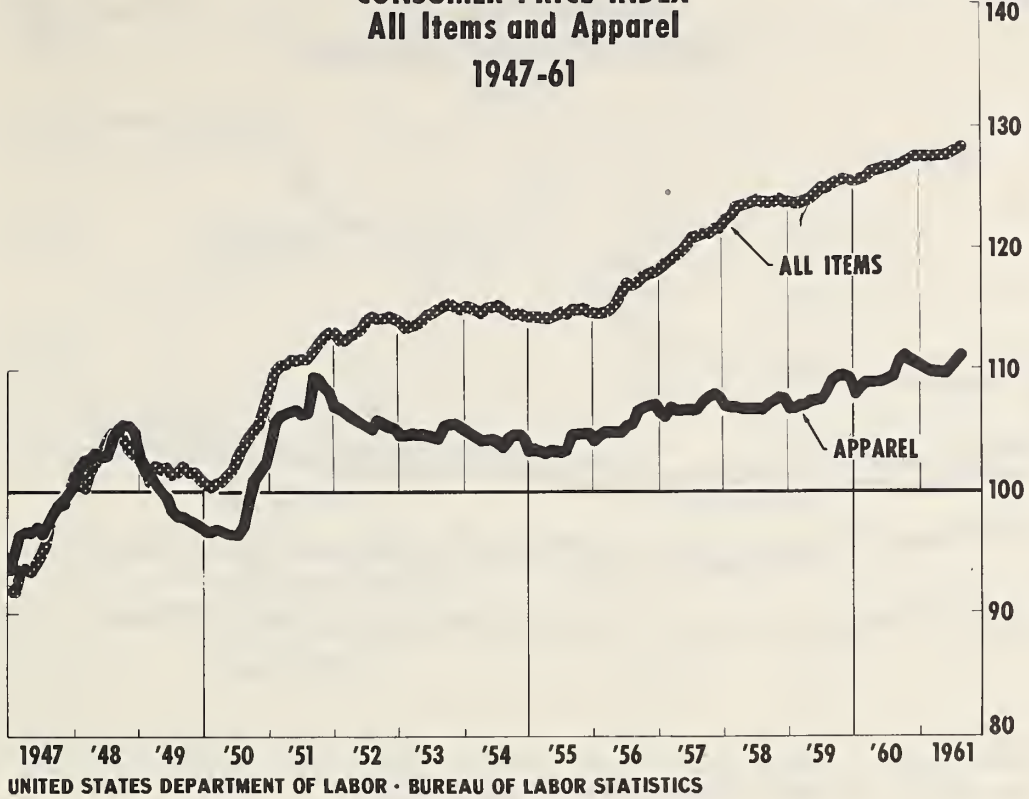


Chart II.

CONSUMER PRICE INDEX **All Items and Apparel**

1939=100 INDEX

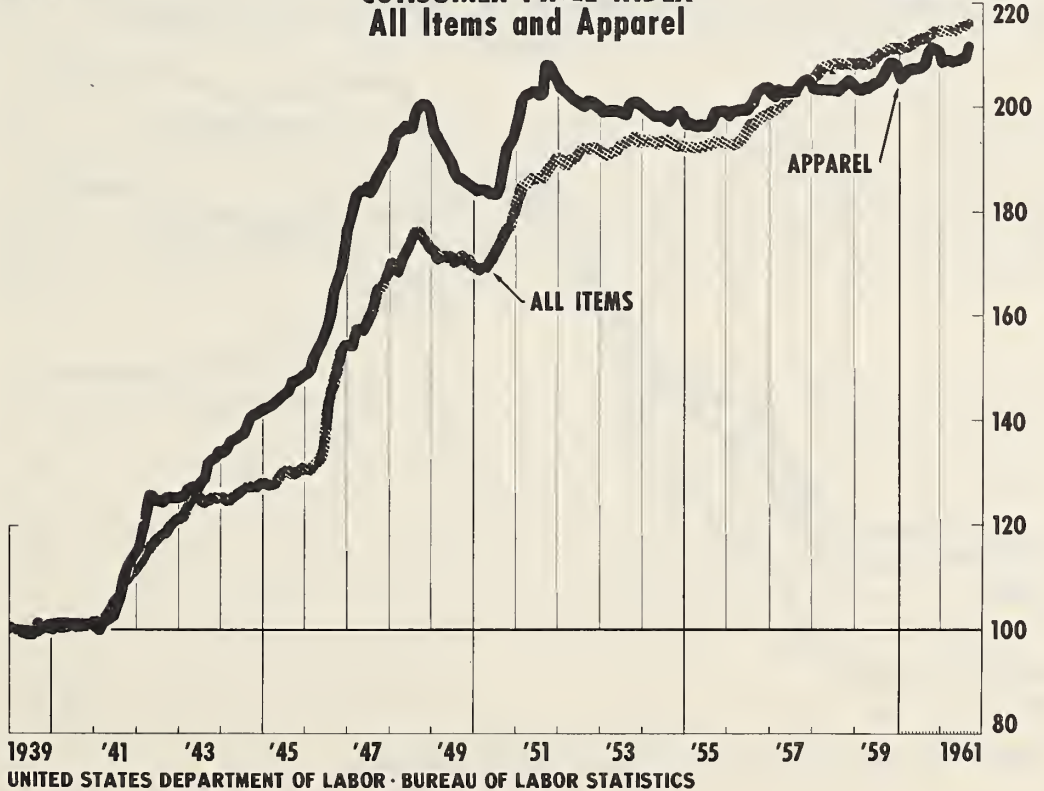


Chart III.

CONSUMER PRICE INDEX **Apparel and Apparel Subgroups** **1952-61**

1947-49=100 INDEX
150

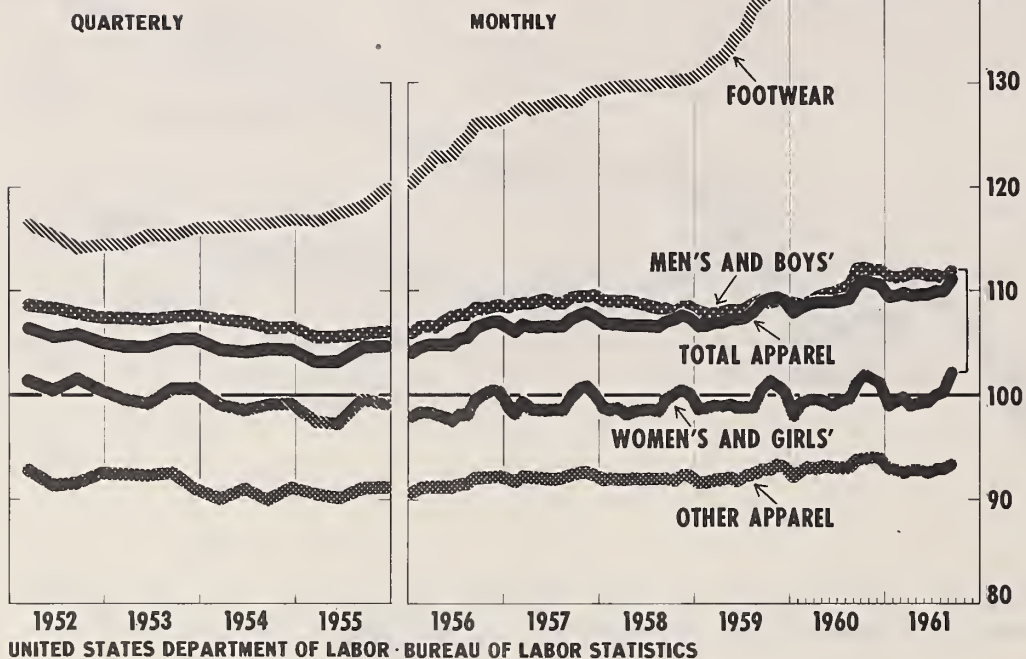
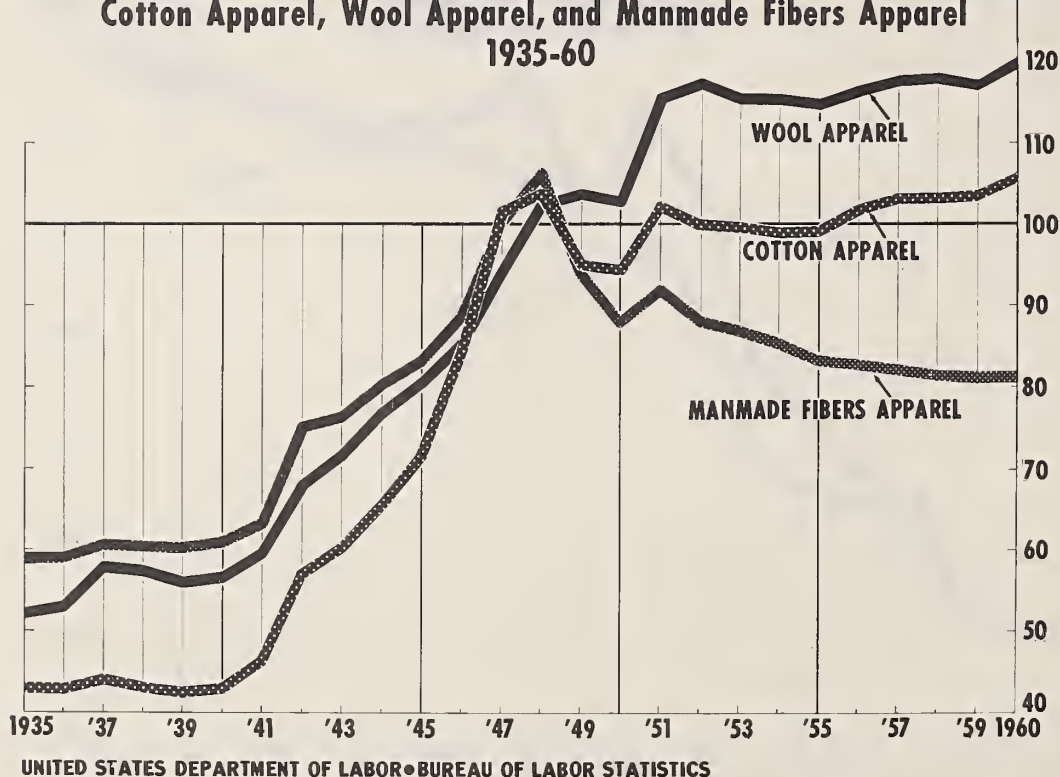


Chart IV.

CONSUMER PRICE INDEX **Cotton Apparel, Wool Apparel, and Manmade Fibers Apparel** **1935-60**

1947-49=100 INDEX
130



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

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OUTLOOK FOR COTTON IN 1962

Talk by Frank Lowenstein
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 3:45 P. M., Wednesday, November 15, 1961

The carryover of cotton on August 1, 1962, is expected to be about 400,000 bales larger than the 7.2 million bales of August 1, 1961. The 1961 carryover was about 400,000 bales smaller than the carryover of 1960 and about 50 percent less than the record 14.5 million bales of 1956. (See figure 1.) The carryover of 1961 was the smallest carryover since 1953.

Stocks held by the Commodity Credit Corporation (owned and held as collateral against outstanding price support loans) on August 1, 1961, were about 1.5 million bales compared with about 5 million bales a year earlier. In contrast, stocks held in commercial hands on August 1, 1961, were about 5.7 million bales, the largest such stocks since 1958. The stocks held by CCC in 1961 were the smallest on any August 1 since 1952. Stocks held by CCC reached their 1960-61 peak in the latter half of January of about 5.3 million bales. They then declined, principally because of anticipation of an increase in prices in the 1961-62 season as indicated by higher support prices announced in February 1961. From February through July 1961, the cotton industry purchased large quantities from CCC for delivery abroad after August 1 and for use by domestic mills. (See figure 2.) It seems likely that stocks held in commercial hands on August 1, 1962, will be considerably smaller and stocks held by CCC will be larger perhaps by as much as 3.0 million bales.

The production of cotton in the United States plus small imports and a small city crop are expected to be larger than disappearance. The 1961 crop was estimated as of November 1 to be about 14.5 million bales, about 300,000 bales larger than the crop of 1960. Disappearance in 1961-62 is expected to be somewhat smaller than the 14.9 million bales of 1960-61. Disappearance is declining because of smaller exports, but an increase in mill consumption of cotton is counterbalancing much of this decline.

The 1961 crop of 14.5 million bales is being produced on 300,000 more harvested acres than the 1960 crop. The yield per harvested acre for the 1961 crop is about the same as the 446 pounds of 1960. The decline in yield from the record high of 1958 to 1960 and 1961 is contrary to the long-term uptrend which had prevailed for many years. (See figure 3.) In 1961, acreage shifted to geographic regions with relatively low yields. The West, which had a record high yield of 991 pounds per acre, only had 8.7 percent of the 1961 planted acreage compared with 10.1 percent in 1960. Acreage in the Southeast increased to 16.2 percent compared with 16 percent in 1960 while the Southwest increased by almost 1 percent to 47.2 percent. Acreage in the Delta States increased slightly.

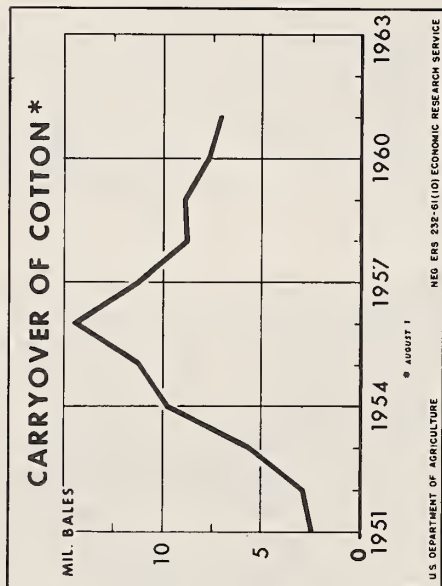


FIGURE 1

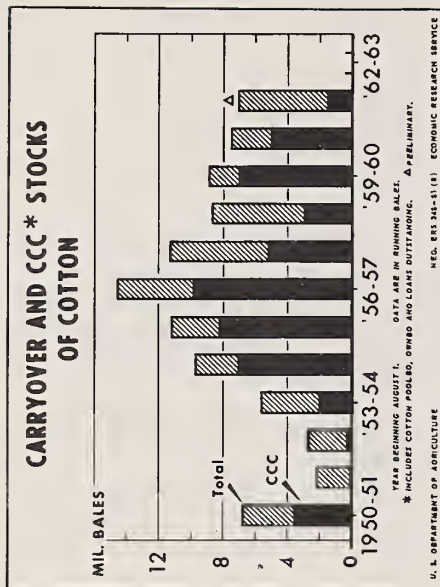


FIGURE 2

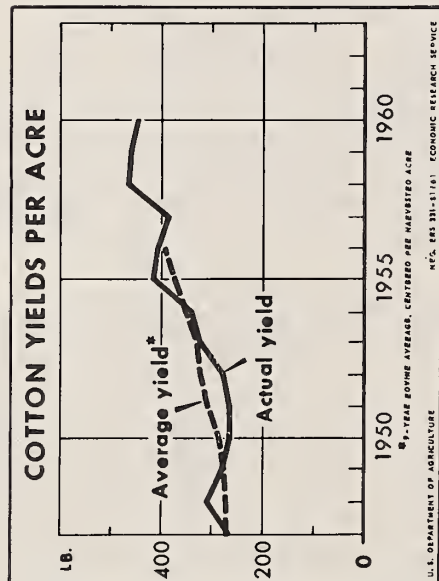


FIGURE 3

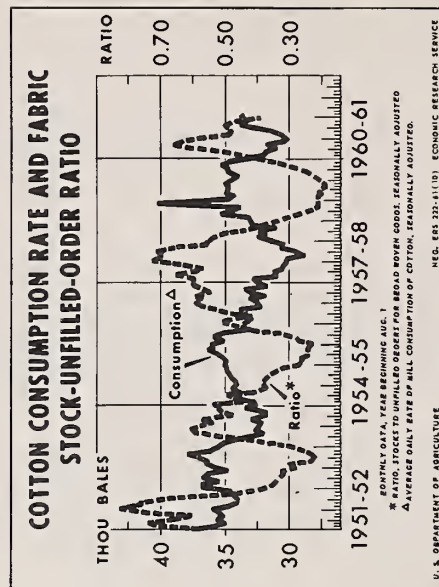


FIGURE 4

Even a larger porportion of the 1961 allotted acreage for upland cotton was assigned to the Southeast, but underplanting there was particularly high for the 1961 crop with about 21 percent of the allotment not being planted. The 1962 national acreage allotment for upland cotton was announced at 18.1 million acres compared with 18.5 million for 1960. The distribution of the 1962 acreage allotment among the geographic regions of the Cotton Belt is not greatly different from that of 1961.

Consumption of cotton by U. S. mills is expected to increase by about a half million bales over the 8.3 million bales of 1960-61. Higher levels of economic activity in the U. S., relatively low levels of pipeline stocks of cotton goods, smaller textile imports, and the maintenance of textile exports at the 1960 levels during the first 8 months of 1961 are causing the increase in U. S. mill consumption.

The ratio of stocks to unfilled orders for cotton broadwoven goods at mills (adjusted for seasonal variation) at the end of September was 0.38 compared with 0.44 in September a year earlier and a post-World War II average of 0.40. This ratio has tended to decline each month since December 1960. Changes in this ratio usually lead changes in the rate of cotton consumption by several months. Furthermore, changes in the ratio and the rate of consumption usually have an inverse relationship. (See figure 4.)

Imports of cotton textiles during the first 8 months of 1961 were about 122 thousand bales below the 374 thousand imported during the first 8 months of 1960. Exports, on the other hand, were very nearly the same in both periods, equivalent to 333 and 324 thousand bales of cotton, respectively. Historically, exports of cotton textiles are usually larger than imports. In 1960, imports exceeded exports for the first time since records began in 1920. Although imports were larger than exports for most of 1960, the balance changed to the traditional position favoring cotton textile exports late in that year. (See figure 5.) During the first 8 months of 1961, exports were larger than imports because of a sharp drop in the level of imports, probably caused by the U. S. textile recession of 1960-61. In July and August, however, the quantity of cotton textile imports increased and was closer to exports than in the first 6 months. The rise in imports was probably caused by the economic recovery in the United States.

The average daily rate of cotton consumption has tended to increase on a seasonally adjusted basis rather steadily since the low of February 1961. In recent years, cotton consumption has shown a consistent seasonal pattern with the highest rates in January and February and the lowest in July and December. (See figure 6.) Adjustment of actual rates for normal seasonal variation gives a more reliable indication of the true level of cotton consumption by U. S. mills. Seasonal adjustment of the September rate indicates domestic mill consumption of more than 8.8 million bales in 1961-62.

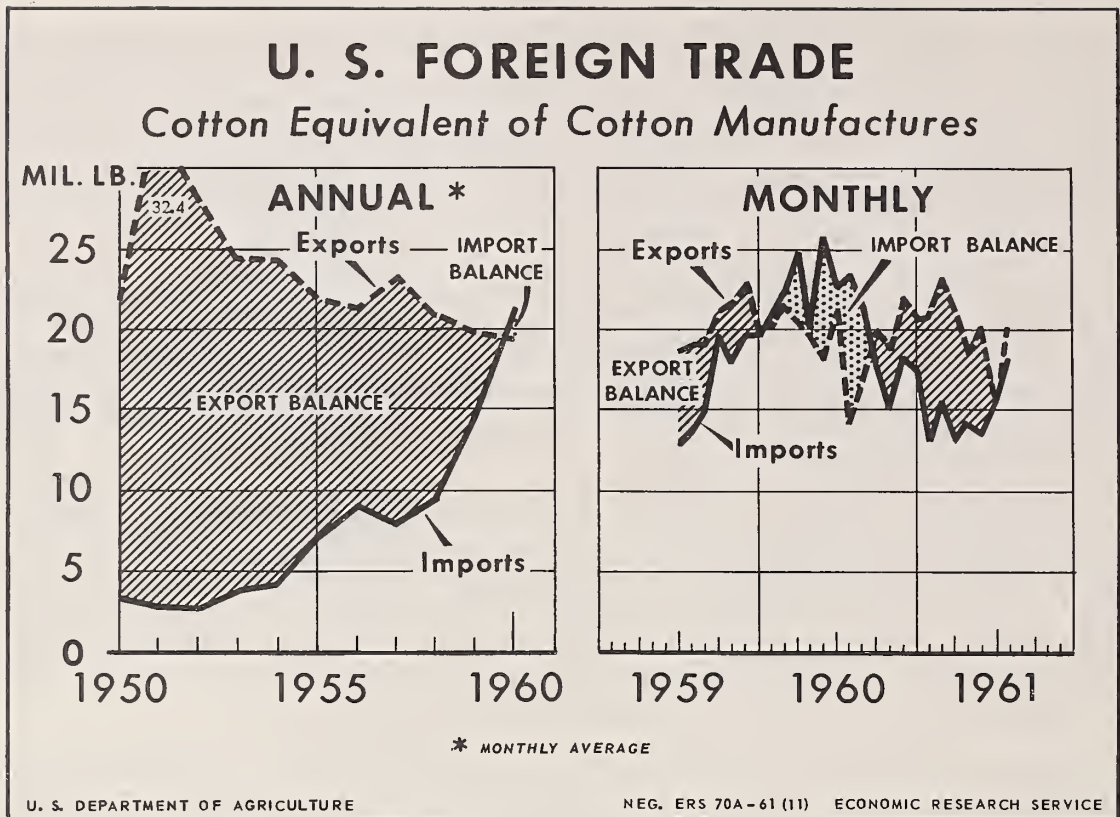


FIGURE 5

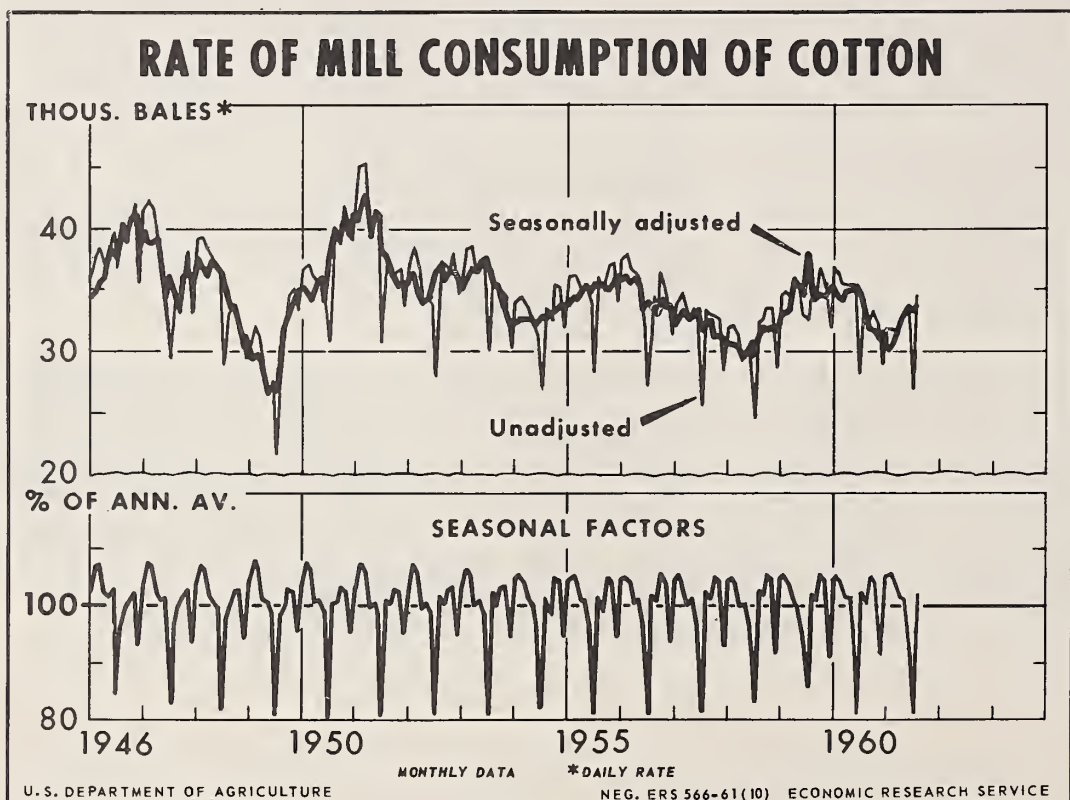


FIGURE 6

Over the past 16 years, mill consumption of cotton per capita has tended to decline rather steadily. If mill consumption is adjusted to reflect changes in U. S. foreign trade in cotton textiles to obtain domestic consumption data, much of this downtrend is eliminated. This adjustment consists of adding the cotton equivalent of cotton textile imports to mill consumption and subtracting the cotton equivalent of textile exports. On a domestic consumption basis, the per capita consumption of cotton in 1960 was close to the 1955-59 annual average, but on a mill consumption basis, per capita consumption in 1960 was about 1-1/3 pounds smaller. Manmade fiber domestic per capita in 1960 was close to 1/2 pound per person smaller than the 1955-59 annual average. (See figure 7.)

Domestic consumption of cotton per capita in the United States during 1961 probably will be about 22.2 pounds, the lowest level since 1958. In 1962, it probably will increase. Domestic consumption of rayon and acetate dropped from 7.1 pounds per capita in 1959 to 5.7 pounds in 1960 and the consumption of non-cellulosic manmade fibers in 1959 and 1960 were about the same.

In the 1961-62 marketing year consumption of both rayon and acetate and the non-cellulosic manmade fibers are expected to increase. Rayon and acetate consumption may increase by as much as 9 percent over that estimated for the calendar year 1961 and non-cellulosic manmade fiber consumption may increase by as much as 7 percent.

Exports of cotton from the United States in the 1961-62 marketing year are expected to decline from the 6.6 million bales of 1960-61 to about 5-1/2 million bales. Smaller exports are expected because the sharp stock build-up in the foreign free world that took place during the 1960-61 marketing year is expected to change to a small stock decline in the current marketing year. Production of cotton in the foreign free world probably will be below that of 1960-61 and consumption will probably be down slightly from that of the preceding season. The gap between foreign production and consumption, which has been gradually widening for the past several years, is expected to be maintained at about the 1960-61 level in 1961-62. (See figure 8.)

Government financing of cotton exports is expected to be somewhat smaller during the current fiscal year than in the fiscal year ending June 30, 1961. Reductions in the quantity of cotton exports financed under Public Law 480 and the Mutual Security Act are responsible for the decline. Financing by the Export-Import Bank is expected to be larger than a year earlier.

Market prices for upland cotton in the United States have increased rather steadily over the past several months. The average 14 spot market price for Middling 1-inch cotton in October of 33.59 cents per pound was the highest monthly average since June 1959.

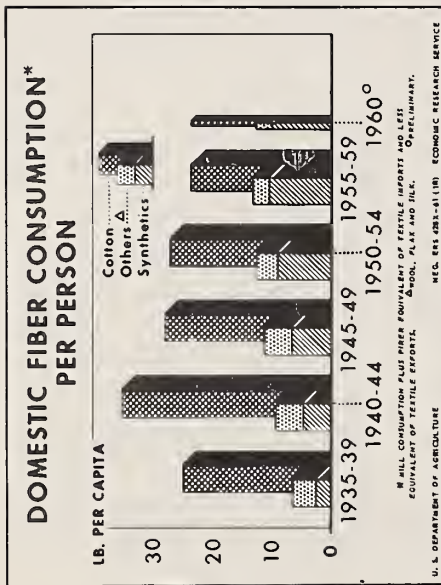


FIGURE 7

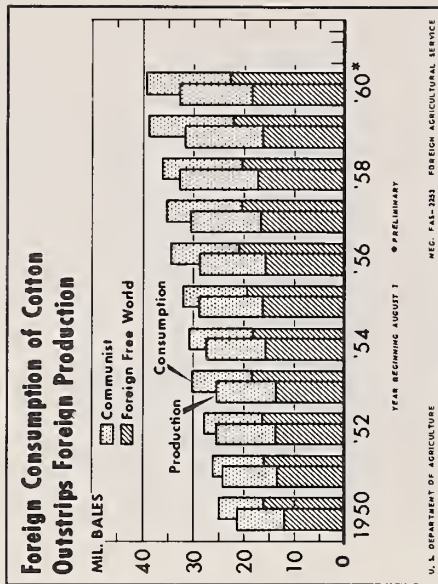


FIGURE 8

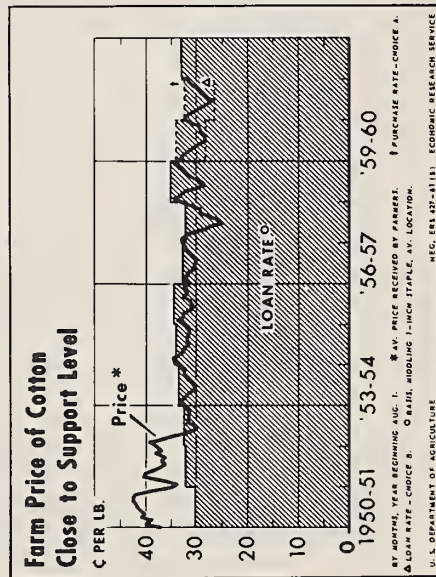


FIGURE 9

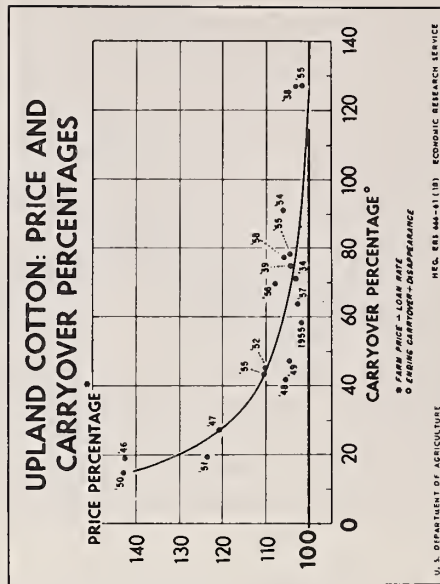
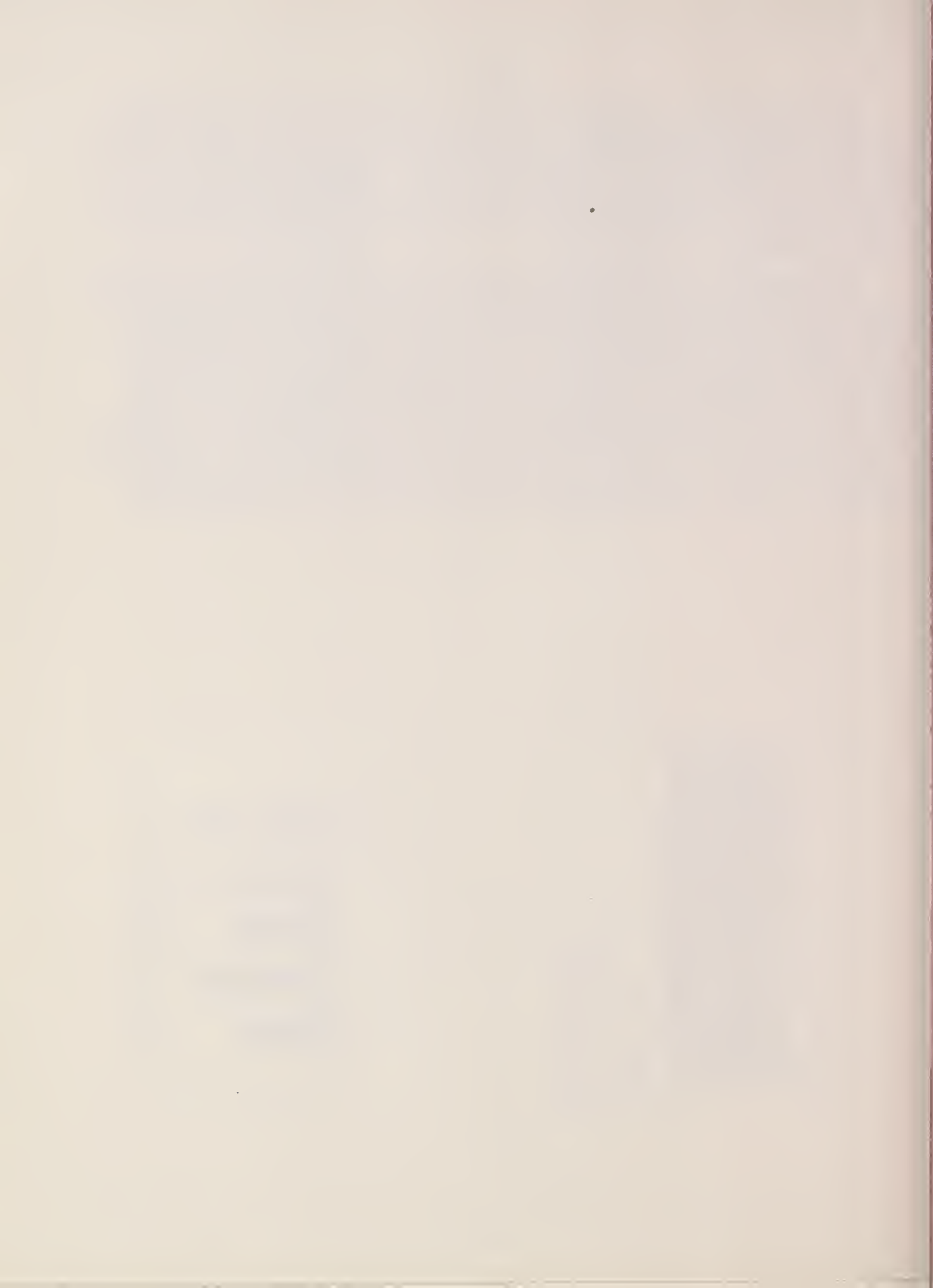


FIGURE 10

The average price received by farmers for upland cotton in mid-October was 33.89 cents per pound, compared with 31.53 cents in October 1960. The average price received by farmers has increased each month since February 1961 when it was at its 1961 low. For several years, it has been close to the support level. (See figure 9.) The rise in prices received by farmers in recent months has accompanied a rise in the support level for the 1961 crop, compared with the 1960 crop.

The average prices received by farmers in the past were influenced principally by two forces--the level of support prices and supply and demand conditions. The relation of supply and demand can be expressed by dividing ending carryover by disappearance. In the past, support prices tended to place a floor under market prices. As the ending carryover became small in relation to disappearance, prices received by farmers tended to rise above this floor. The rate of increase became more rapid as the ending carryover became relatively smaller. (See figure 10.) The ending carryover in relation to disappearance during the current season is considerably smaller than it was a few years earlier. It probably will be about 50 percent of 1961-62 disappearance on July 31, 1962, compared with about 48 percent a year earlier.



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE OUTLOOK FOR FATS, OILS, AND OILSEEDS IN 1961-62

Talk by George W. Kromer
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 1:30 P.M., Wednesday, November 15, 1961

The long run uptrend in supplies of food fats and oils in the U. S. was temporarily reversed last year mainly because of reduced stocks of soybeans. It is expected to resume in the 1961-62 marketing year as the outlook is for a new record high by a wide margin.

The total U. S. supply of food fats and oils during the 1961-62 marketing year is forecast at a record 16.1 billion pounds (in terms of oil), 2.1 billion pounds or 15 percent more than the quantity available a year earlier. The increase in production is largely due to the record 1961 soybean crop, although lard and butter output will be slightly greater in 1961-62 than a year earlier. Beginning stocks on October 1, 1961, were up somewhat (because of the huge carryover of soybean oil) from last year and total output of food fats in 1961-62 will hit a new high.

Domestic disappearance of food fats in 1961-62 probably will continue at about the annual rate of 46 pounds (fat content) per person. With the expected growth in population, total domestic use should increase by about 125-150 million pounds. These prospects indicate that the quantities of edible oils, soybeans, lard, and butter available for export in 1961-62 will be a record 7.0 billion pounds, approximately 2.0 billion pounds or 40 percent more than last year.

Fortunately, the export outlook is very favorable. Current prospects are that exports of food fats (including the oil equivalent of soybeans) through September 1962 may set a new record of around 4.6 billion pounds, roughly one-third more than the 3.2 billion pounds exported during 1960-61. Main factors in the export outlook include: (1) Europe will buy more U. S. soybeans because of expanding demand for soybean meal and the small supplies that are likely to be available from Communist China. Also, heavy buying by Europe this fall will, in part, reflect deferred purchasing last summer in anticipation of lower prices for new crop beans in the U. S.; (2) Japan recently removed her restrictions on imports of U. S. soybeans. Demand

from Japan will result in larger imports; and (3) Sharp expansion in movement of edible oils (cottonseed and soybean oils) under the Food for Peace program--about 1,000 million pounds compared with 525 million in 1960-61. Most of this expansion will consist of donations through charitable agencies. There will also be expanded exports of edible oils to Pakistan under the recently signed 4 year agreement and to Turkey under Title I, F. L. 480 whereas last year there was no program with Turkey. Increased exports for dollars to Spain are likely, reflecting reduced olive oil production in that country.

Exports of edible oils (cottonseed and soybean) for 1961-62 are forecast at 1.9 billion pounds, up about 70 percent from the 1.1 billion shipped abroad for the year just ended.

Export sales of edible oils for dollars are expected to total about 900 million pounds (47 percent of the total) compared with 608 million pounds in 1960-61. The major increase would go to Spain, as that country shifts away from Title I, F. L. 480 oil.

Exports of cottonseed and soybean oils under F. L. 480 (excluding donations) are estimated at 545 million pounds (29 percent of the total) compared with 492 million in 1960-61. The rise would mainly reflect major increased movement to Pakistan and Turkey, as well as larger exports to Israel, Egypt, Iran and Colombia. These would more than offset the elimination of programs with Greece and Spain.

Commitments under the Food for Peace Program in 1961-62 are substantially larger than last year. So far, about 455 million pounds of edible oil are scheduled to be purchased by the USDA for donation to the needy abroad--255 million pounds have been bought this fall and another 200 million is slated for next spring, and additional purchases next summer are possible.

Soybean oil exports during 1961-62 are forecast at a record 1,350 million pounds, 600 million more than last year. The increase would reflect a heavy movement of oil under the foreign donation program; although dollar sales--mainly to Spain--are also expected to be up sharply. Cottonseed oil exports are forecast at 550 million pounds, up 165 million from 1960-61, reflecting increases in the program sector.

Other factors in the 1961-62 outlook for U. S. exports of food fats and oils include: (1) Substantially smaller olive oil crops in

Spain and Italy; (2) smaller exportable supplies of Philippine copra and coconut oil and Canadian rapeseed. On the other hand, considerably more African peanuts. The Indian peanut crop is up. In recent years, India exports only small quantities of peanuts for crushing and very little oil. This year if India domestic prices drop substantially some peanuts or oil may be exported; (3) a continuation of small exportable supplies from China and a somewhat smaller Argentine supply of edible oils at least through next spring; (4) a slightly better than average sunflower crop in the U.S.S.R. and good crops in Eastern Europe; (5) rising population and a high level of economic activity in most parts of the world; and (6) an expanded U. S. Food for Peace Program.

Now let us turn to the outlook for individual commodities.

Soybean supplies in the U. S. in the 1961-62 marketing year are placed at 716 million bushels, an increase of 134 million over the year before. The 1961 soybean crop is up 27 percent but carryover stocks of old crop beans on October 1, 1961, were a mere 6 million bushels--only about one-fourth as much as the 23 million bushels on the same date in 1960.

An increase in supply this large is greater than can readily be absorbed by the expanding soybean market outlets during 1961-62 at expected market prices; and a sharp buildup in carryover stocks on October 1, 1962, will occur.

The season average price received by soybean farmers for 1961 crop soybeans is forecast at \$2.30 per bushel, about 5 percent more than a year earlier. The seasonal swing in soybean prices in 1961-62 will at best be modest compared with the unusually large increase last year, as prices will be linked more closely to the CCC price support operations.

Farm prices during the heavy soybean harvesting season this fall are averaging near the national support rate of \$2.30 per bushel. After the heavy harvest period, prices to farmers likely will return to the loan level, and advance seasonally only to reflect storage charges. The CCC probably will take over a substantial amount of 1961 crop soybeans on June 1, 1962, and its resale price will be at least 16.5 cents per bushel over the \$2.30 per bushel loan rate during the summer. The CCC sales price will tend to become the market price at that time as soybean crushers and exporters turn to the Government for supplies to meet commitments for the remainder of the marketing year. This has usually been the case in years of substantial takeover of soybeans by CCC.

Soybean crushings in 1961-62 are forecast at 425 million bushels, up about 23 million bushels from the previous year. A bean crush this size would produce about 4.6 billion pounds of crude soybean oil and 10.0 million tons of soybean meal.

Domestic use of soybean oil in 1961-62 is forecast at 3.5 billion pounds, up slightly from the 1960-61 marketing year. The forecast assumes (1) total use of food fats will remain at about 46 pounds (fat content) per person; (2) supplies of lard will be up about 5 percent and most of this is expected to move into domestic consumption because of its prospective price advantage; (3) less cottonseed oil will be used domestically this year than last mainly because of its price premium and more oil will move abroad under Government programs. The combined domestic and export requirements for bean oil in 1961-62 probably will be great enough to reduce soybean oil stocks considerably by September 30, 1962.

Domestic use of soybean meal in 1961-62 is expected to be somewhat greater than in 1960-61. Foultry requirements will remain high, hog population will be up slightly, more cattle are on feed, and feeding ratios should be favorable. Prices of livestock and livestock products are expected to average close to the levels of 1961 and this should maintain a high feeding rate of protein per animal unit. Another factor in the soybean meal outlook for 1961-62 includes the increasing domestic demand for livestock products because of rising population and consumer incomes. Also, larger supplies of soybean meal will be available for domestic feeding and prices probably will average slightly lower than in 1960-61.

Export demand for soybeans during 1960-61 totaled about 130 million bushels compared with the record 141 million the previous year. It was strengthened by the scarcity of offerings from Red China, and the domestic market outbid the export market for the limited supplies of U. S. beans.

With strong foreign demand for beans, exports in 1961-62 are forecast at 175 million bushels, up 45 million from last year. The increase over last year is expected to go mainly to Japan and Western Europe. These major importing areas will continue to need large imports of U. S. oilseeds. Exportable supplies from Red China are likely to continue small and perhaps somewhat less copra will move in world trade. In addition there probably is increased buying this fall to compensate for the sharply reduced buying of this past summer. More African peanuts, however, are likely to be available. The consumption of soybean oil in Europe has been trending upward slowly and the European livestock economy continues to grow.

As usual, the biggest unknown in the outlook for U. S. exports is the probable level of competition from Communist China. Exports of soybeans from Red China in 1961-62 are expected to continue far below the 55 million bushel average of recent years but not much change from the low level of 1960-61--only 10 million bushels of beans moved through the Suez Canal during October-August 1960-61 compared with 33 million a year earlier.

Soybean seed and feed uses probably will require about 40 million bushels of beans. If crushing (425 million bushels) and soybean export (175 million bushels) estimates are reasonably accurate, carryover stocks of old crop beans on October 1, 1962, may be around a record-high 75 million bushels, compared with only 6 million bushels on the same date this year and the record 62 million bushels on October 1, 1959. Most of the carryover of 1961 crop beans likely will be in the hands of CCC. A soybean carryover of 75 million bushels would be enough to satisfy a little more than one month's peak crush and export.

Soybean oil prices (crude, Decatur) during the 1961-62 marketing year are expected to average about the same as the 11.3 cents per pound for 1960-61. The price of bean oil in late October was 10.6 cents per pound, about 1.0 cents above October 1960, and it is quite likely that prices later in the year will go moderately above this level. The wide swing in soybean oil prices which occurred during 1960-61 is not in prospect this year, mainly because of increased supplies of soybeans (which means less competition for beans for crushing), a more stable soybean price pegged to the higher support rate, and the current record high inventory of soybean oil. The price outlook reflects the sharp increase in the output of these fats and the higher support.

Cottonseed production in 1961-62 is placed at 5,942,000 tons, about the same as a year ago. A crop this size will produce about 1,850 million pounds of crude cotton oil and about 2,550,000 tons of cake and meal, about the same quantities for both products as last year. Prices to farmers for 1961 crop cottonseed are expected to average slightly above the CCC purchase price of \$45.00 per ton, basis grade (100), about 6 percent more than those received for the 1960 crop.

Cottonseed oil prices (crude, Valley) since August 1, the beginning of the 1961-62 marketing year, have declined somewhat from 13.4 cents per pound. By late October prices were 12.0 cents per pound, about 2.5 cents above a year ago. Prices during the heavy

October-December 1961 production months are likely to average well above the 10.0 cents per pound that prevailed during these same months last year, mainly reflecting higher cottonseed prices to farmers. Cotton oil prices later in the marketing year probably will show some seasonal price increase, as usual, and the average price for the entire 1961-62 season is likely to average slightly higher than the 11.6 cents per pound in 1960-61.

The 1961-62 cottonseed oil seasonal variation, however, should be mild compared with their sharp fluctuations witnessed in 1960-61. The outlook indicates that cotton oil prices this fall will average well above last fall but next spring prices likely will average well below the spring of 1961. Dominant factors in the price outlook for cottonseed oil during 1961-62 are (1) lateness of the 1961 cottonseed crop; (2) increased export movement of cottonseed oil under government programs; (3) larger supplies of competitive lard and soybean oil in the U. S.; (4) a good domestic demand for cotton oil although not as strong as last year, and (5) increased price supports for cottonseed.

Lard output during 1961-62 is expected to rise slightly, resulting in lower lard prices and more lard used in the manufacture of shortening. Little change in exports is in prospect.

Production of lard (including farm) in the marketing year which began October 1, 1961, is forecast at 2,650 million pounds, up about 5 percent from the year before. The increase reflects the rise in hog slaughter due to the upturn in the number of pigs saved in 1961.

Domestic disappearance of lard in 1961-62 is forecast at 2,150 million pounds, about 7 percent more than the previous year. The rise mainly reflects increased usage of lard in the manufacture of shortening although use in margarine may be up a bit again this year.

Exports and shipments of lard during 1961-62 are expected to approximate the 500 million pound rate of 1960-61, with a larger volume to the United Kingdom tending to offset the reduced movement to Cuba. Exports to the U. K., largest single market for U. S. lard, are expected to pick up in 1961-62 mainly because of lower prices. The U. S. lard industry is confronted with the narrowing-down of U. S. foreign outlets as a result of greatly expanded production abroad and the increasing number of trade barriers.

Lard prices (tankcars, loose, Chicago) for the entire 1961-62 marketing year are expected to average roughly 10 percent below

the 10.0 cents per pound during 1960-61. Lard prices this fall and winter, when production will be seasonally high, are expected to show some weakness and probably will average below the 9.8 cents per pound during October-December 1960.

The domestic flaxseed supply situation during 1961-62 is expected to be tight as output is down sharply (because of lower acreage and drought) and stocks are low. Flaxseed supplies in the 1961-62 marketing year, which began July 1, are estimated at 27 million bushels compared with 33 million last year. Crashings of flaxseed for domestic oil use may total around 19 million bushels, slightly less than last year and another 2 million will be needed for seed. Exports are expected to total about 2 million bushels (about 1 million has already moved out), leaving only 3 million bushels for carryover stocks on July 1, 1962. The season average price received by farmers for 1961 crop flaxseed (those fortunate enough to have it) is estimated at \$3.40 per bushel, 60 cents above the 1961 support price and 75 cents above the average price received for 1960. These high prices result not only from the reduced supply in the U. S. but also from the world shortage, which probably will not be alleviated until the Argentine crop comes to market in early 1962.

Linseed oil prices (raw, tank cars, Minneapolis) so far this marketing year averaged 15.3 cents per pound, 2.5 cents above July-October 1960 and the highest price level since the spring of 1956. These higher prices reflect the smaller supplies of linseed oil and the short 1961 crops. The outlook for linseed oil prices indicate that they will continue strong throughout the 1961-62 marketing year, averaging around 15-16 cents per pound compared with an average of 13 cents in 1960-61.

Inedible tallow and grease output in 1961-62 is forecast at a record 3.6 billion pounds compared with 3.5 billion last year. Domestic use of inedible tallow and grease is expected to total 1.8 billion pounds or about the same as the last 4 years. Exports are forecast at a new high of 1.8 billion pounds compared with 1.7 billion in 1960-61.

Perhaps one of the most significant developments in the inedible tallow and grease industry during 1960-61 was the shift in foreign markets. Exports to Europe were off sharply but this was more than offset by increased shipments to Japan and Russia. The U.S.S.R. has been a large purchaser of U. S. tallow beginning with March 1961, taking 198 million pounds through August. In the case of Japan, reduced supplies from Australia, liberalization of Japanese import

restrictions, and effective U. S. market development activities helped spur the increase. Prior to 1959, Japan purchased Dutch lard processed from U. S. hog grease, but Japan has since developed its own processing industry.

The price outlook for the year ahead again hinges upon the strength of export demand as little change is in prospect for domestic disappearance. Current indications are that prices during 1961-62 will be more stable than last year and probably average around the 5-6 cents per pound level as output rises and stocks remain large. Slightly lower but more stable prices in 1961-62 than last year will improve our competitive position in world markets and exports during 1961-62 will probably increase over the previous year. Some increase is in prospect for U. S. exports to Japan, Europe, and possibly the U.S.S.R. Also, substantial amounts of inedible tallow and grease will be shipped abroad under P. L. 480 in 1961-62 whereas last year there were no program exports.

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: Economic outlook information for oilseeds, vegetable oils, and :
: animal fats is published regularly in the Fats and Oils Situa- :
: tion, a processed publication by the Economic Research Service, :
: Economic and Statistical Analysis Division. This statement is :
: a summary of the 1962 Outlook issue, FOS-210 for November :
: 1961. :
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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR FEED IN 1962

Talk by Malcolm Clough
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington D. C., 2:00 P.M., Tuesday, November 14, 1961

The 1961-62 feeding year is the first in nearly a decade in which supplies of feed grains are smaller than the preceding year and a smaller carryover is in prospect for the close of the marketing year. Other features of the feed picture include a 16 percent reduction in the total feed grain acreage; a record yield per acre and 11 percent smaller production. Price supports are higher for 1961 feed grain crops than in 1960, and feed grain prices are expected to average above the 1960-61 level. We will have ample high-protein feed supplies probably selling for a little lower prices than in 1960-61, and adequate and generally well distributed hay supplies.

Farmers reduced their 1961 acreage of feed grains 16 percent below the 1960 acreage. Much of the reduction was in corn and sorghums as growers participated in the 1961 Feed Grain Program. Higher yield per acre, however, offset part of this reduction and the crop was down about 11 percent. Feed grain yields per acre have gone up at the rate of 5 percent per year since 1954. This year they are 50 percent higher than 10 years ago.

Total supplies of feed grains and other concentrates for 1961-62 were estimated, on the basis of October indications, at 252 million tons, 7 million tons less than in 1960-61. This reduction follows a steady upward trend in feed concentrate supplies that began in 1952. Supplies set new records in each of the 7 years from 1954 to 1960. Supplies increased 100 million tons from 1952 to 1960, an average increase of 12.5 million tons annually. The 7 million ton reduction this year from the 1960-61 record high is significant in that it reverses this upward trend. Our total supply is still large, however, exceeding supplies in any year prior to 1960-61.

Domestic use and exports of feed grains in 1961-62 are expected to continue near the high levels reached in 1960-61. The total number of grain-consuming animal units to be fed in 1961-62 is expected to be up about 2 percent from the 1960-61 level. The rate of feeding per animal unit, however, probably will fall below the record high reached in 1960-61 and the total tonnage consumed by livestock may be a little below last year's record high. Total utilization and exports of feed grains are expected to exceed production for the first time in 10 years.

This would mean the feed grain carryover that increased steadily from 1952 to 1961 will be smaller at the close of the 1961-62 marketing year. Carryover stocks reached a record high of 84 million tons in 1961. About 74 million of this was under loan or owned by CCC. The carryover into 1962-63 is expected to drop about 5 million tons below the record level this year, with practically all of the reduction coming from Government stocks.

The 1961 corn crop was estimated in October at a little over 3.5 billion bushels, about 9 percent smaller than production last year. The smaller crop resulted from an 18 percent reduction in acreage through farmers' participation in the 1961 Feed Grain Program. Weather was favorable this year for corn and higher yields per acre offset about half of this reduction. The smaller crop this year is expected to fall below total utilization by around 150 million bushels. This would result in a comparable reduction in carryover into 1962-63 from the record level of close to 2.0 billion bushels on October 1 this year. It is estimated that of the total production this year, a little under 1.5 billion bushels will be eligible for price support and a little over 2.0 billion bushels will not be eligible.

The 1961 sorghum grain crop was estimated in October at 478 million bushels, 21 percent below the near record output in 1960. Farmers reduced the acreage harvested for grain 29 percent but this was offset, in part, by higher yields. While the sorghum grain crop was smaller than in 1960, carryover increased over 200 million bushels, giving a total supply only slightly below the record of last year. Total utilization may be about equal to 1961 production, and carryover at the close of the 1961-62 period probably will be near the 701 million bushels carried over on October 1 this year. It is estimated that of the total 1961 production, about 280 million bushels are eligible for price support.

The oat supply for 1961-62 is estimated at a little over 1.3 billion bushels, the smallest since 1939. The crop is expected to be below 1961-62 utilization, resulting in a smaller carryover in 1962.

The barley supply for 1962 of 552 million bushels is 9 percent smaller than last year and a little below the 1955-59 average. The 1961 crop was 11 percent smaller than production last year. The harvest was especially short in the Northern Plain States, which produce a substantial part of the barley used for malting. The smaller domestic supply of barley is expected to result in reductions in domestic use and exports. The carryover of barley on July 1, 1962 may be down around 10 percent below the carryover at the beginning of the 1961-62 marketing year.

Feed grain prices are a little higher this fall than a year ago and probably will average higher for the 1961-62 feeding year. Some of the factors that will tend to maintain feed grain prices above the 1960-61 level are: (1) Higher price supports for 1961 crops than for the 1960 crops, averaging 16 percent higher for the 4 feed grains; (2) feed grain production is down 11 percent and (3) livestock numbers are expected to increase slightly, with livestock prices holding near the 1960-61 level.

Feed prices have been low in relation to prices of livestock and livestock products since 1957. They probably will continue comparatively low in 1961-62, although they may be a little less favorable than during most of the past 3 or 4 years. Prices of hogs, dairy products, and fat cattle were substantially higher than the 1950-59 average in relation to feed prices in 1960-61 and probably will continue above average during 1961-62. On the other hand, broiler and turkey prices were considerably below average in relation to feed costs during 1960-61 and continue below average this fall.

Price supports for 1961 crops of each of the four feed grains are above the 1960 levels. The 1961 support price for corn is \$1.20 per bushel, 14 cents

above the 1960 support level. While "free" supplies for 1961-62 are below those in 1960-61, prices will also be influenced by sales of corn by CCC under the 1961 Feed Grain Program. It is estimated that total sales of corn by CCC in 1961-62 will be more than double the 313 million bushels sold in 1960-61. Corn prices in 1961-62 are expected to average above the 1960-61 level. But they probably will not average as close to the 1961 support of \$1.20 as in 1960-61 when they were only 6 cents below the 1960 support of \$1.06 per bushel. The Department of Agriculture has announced that CCC corn, representing certificates issued under the 1961 Feed Grain Program, would be sold at market prices, but sales will not be made at levels below generally prevailing prices received by farmers in the fall of 1960. The Department stated that the objective of the sales operation "will be to permit feed grain prices during the marketing year to generally follow patterns, relative to harvest-time prices, similar to those of recent years." Corn prices normally reach their seasonal low in November and advance to July. In recent years, No. 3 corn at Chicago has risen about 10 to 20 cents per bushel from November to the seasonal high the following summer.

Prices received by farmers for sorghum grain also are expected to average above the 1960-61 level. The 1961 support for sorghum grain is \$1.93 per cwt., 41 cents higher than in 1960. The crop is about a fifth smaller. Prices received by farmers for oats and barley are higher this fall than a year earlier and are also above the 1961 supports. Prices of these grains are higher than normal relative to most other feeds, and they probably will continue relatively high during the 1961-62 marketing year.

The long-term upward trend in high-protein feeds was resumed in 1960-61 after the drop in supplies in 1959-60. The upward trend is expected to continue in 1961-62 with total supplies of high-protein feeds up about 4 percent over 1960-61. As in most recent years, the increase will be principally in soybean meal. Soybean meal furnished less than half of the total of the high-protein feeds fed to livestock in the early 1950's, but will make up nearly 60 percent of the total in 1961-62. The soybean crush in 1961-62 is expected to total around 425 million bushels, 6 percent more than in 1960-61. This would give a total output of about 10 million tons of soybean meal, 6 percent above the large production last year. Exports of soybean meal are expected to at least equal the 1960-61 tonnage and may exceed last year's exports. The total tonnage of soybean meal available for feeding is expected to be around 6600,000 tons above the 8.8 million tons fed in 1960-61. The larger supply of soybean meal is expected to result in soybean meal prices averaging below the 1960-61 level. Prices of soybean and other high-protein feeds are not expected to make the sharp seasonal rise of this winter and next spring that occurred in 1960-61.

The 1961-62 hay supply is about equal to the supply last year but is a little below average per roughage-consuming animal unit. The very favorable condition of pastures this fall, however, has reduced early season requirements, and hay supplies appear adequate in most areas. Drought areas are again small this year being limited mainly to the Dakotas and other local areas of the mid-west and Western States.

Exports of feed grains in 1961-62 may continue near the high level of the past 3 years, when around 12.5 million tons were exported each year. Exports of oats and barley probably will be lower than in 1960-61. But corn exports are expected to continue large and sorghum grain probably will increase from

the 1960-61 level when they were 30 percent below exports in the 2 preceding years. Factors which will tend to maintain the demand for United States feed grains abroad are the smaller oat crop and less feed quality wheat in Western Europe and the much smaller production of oats and barley in Canada.

In conclusion, let us consider for a moment prospects for the 1962-63 season. While it is too early to forecast with any degree of assurance the supply of feed grains in 1962-63, indications at this time point to a further moderate reduction in supplies next year. The extent of such a decline depends largely on 2 factors: (1) The effectiveness of the 1962 Feed Grain Program and (2) the 1962 growing season. The 1962 Feed Grain Program carries essentially the same provisions for acreage diversion of corn and sorghums as the 1961 program. In addition, the program has been expanded to include barley. Should farmers respond to the program in 1962 as they did this year, corn and sorghum acreage would remain near the 1961 level. Barley would be expected to be about 2 million acres less than the 15.3 million acres planted this year. With oat acreage at about this year's level, or possibly a little lower, the combined acreage of the four feed grains would be slightly lower next year.

This reduction in acreage could, of course, be over-shadowed by changes in yield per acre which vary considerably from year to year. A normal growing season, however, probably would produce a little smaller crop than this year when the growing season was better than average for corn and sorghum grain. If present prospects for the 5 million ton reduction in the feed grain carry-over into 1962-63 materialize, there would be a further overall reduction in supplies for 1962-63, possibly of about the same magnitude as in 1961-62 when supplies were reduced about 7 million tons from the preceding year.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE OUTLOOK FOR FRUITS AND TREE NUTS IN 1962

Talk by Ben H. Pubols

Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 9:15 a.m., Thursday, November 16, 1961

General Supply and Demand Prospects

Prospective supplies of fresh and processed fruits from this fall to mid-1962, are moderately larger than in this part of the 1960-61 season. Moreover, supplies of most classes of fruit--fresh citrus and deciduous and canned, frozen, and dried--are expected to be up from 1960-61. Consumer demand for both fresh and processed fruit, supported by rising incomes, is expected to continue at a high level.

Export Outlook

Export prospects for U. S. fruit in 1961-62 vary among commodities. For fresh apples and pears, the outlook is for significant increases, especially to western Europe, where the 1961 crop of apples is down sharply from 1960 and that of pears is down moderately. Although exports of fresh grapefruit may be up a little, those of lemons sustained, and those of oranges down somewhat, total exports of fresh citrus in 1961-62 may not be greatly different from 1960-61. But exports of single-strength and concentrated citrus juices may increase moderately. With the liberalization of restrictions in most importing countries in recent years, prospects continue favorable for exports of canned deciduous fruits. Production of both raisins and dried prunes in foreign countries is above 1960, and prices, especially for raisins, are down. However, the U. S. export volume of each may approximate that of 1960-61.

Deciduous Fruits

Deciduous fruit production in 1961 is expected to be about 9 percent larger than last year and 10 percent above the 1950-59 average. All crops in this group are larger this year than in 1960, except apricots and cranberries, and all are above average except apricots, pears, and prunes. The large total production in 1961 is the result mainly of generally favorable growing and harvesting conditions, especially the weather, plus the effect of substantial new plantings of some fruits coming into bearing.

Deciduous fruit production from 1935 into the 1950's has been marked by little change in the level of total output but by a slowly declining trend in output per capita. Since the mid-1950's, total production has tended to increase, but only enough to hold output per capita from dropping further. Rising trends are indicated for apples, peaches, nectarines, sour cherries, and cranberries. But year-to-year changes in fruit production are closely related to changes in the weather. Assuming average weather for 1962 crops, total output of deciduous fruit next year somewhat smaller than this year appears probable.

Except mainly for apples, pears, grapes, and cranberries, 1961 deciduous crops have already been marketed by growers. Because of increased production, there probably will be heavier supplies of apples and pears in storage on January 1, 1962, than a year earlier. Grower prices for these two fruits in October averaged somewhat under the relatively high levels of a year earlier. Although grower prices for the larger 1961 fruit crops tended to average lower than in 1960, they still held up well under strong fresh market and processor demand. In fact, prices for some fruits for processing averaged higher than in 1960.

The 1961-62 pack of canned fruits, which will not be completed until the canning of apples is finished next spring, may set a new record moderately above the heavy 1960-61 pack. Output of canned fruit cocktail items and California clingstone peaches are record large, the packs of sweet cherries and sour cherries are up sharply, but that of apricots is down moderately. The pack of canned pears may not be greatly different from the fairly heavy 1960-61 pack. Large packs of canned apple slices and applesauce are in prospect. As the season for canning fruit from the 1961 deciduous crop was getting underway last June, packers' stocks were moderately larger than a year earlier.

Output of frozen deciduous fruits and berries (excluding juices) is expected to be somewhat larger in 1961 than in 1960, mainly because of a sharp increase in the pack of frozen red tart cherries. The pack of frozen strawberries, not yet completed, may not be greatly different from the 1960 pack.

Dried fruit production also is expected to be up moderately in 1960-61. Most of the increase will be in raisins, though some increase is expected in dried prunes.

Citrus Fruit

Early-season prospects point to production of citrus fruit in 1961-62 somewhat larger than in 1960-61, when crops in Florida were cut by Hurricane Donna and in California by hot weather. The 1961-62 early, midseason, and Navel orange crop is expected to be about 3 percent larger than the 1960-61 crop and 1 percent above average. Increases in Florida, Arizona, and Louisiana more than offset decreases in California, due to hot weather, and in Texas, due to Hurricane Carla in September. In Florida, production of the Temple orange, included in the above, is up sharply this year. Production of tangelos also is up substantially. But that of tangerines is down considerably. Prospective production of Valencia oranges is larger than in 1960-61 in all orange States, except California, for which the first official estimate will become available in December.

The 1961-62 grapefruit crop (excluding the usual small production of California summer grapefruit) is expected to be about 8 percent above the 1960-61 crop and 9 percent above average. Crops are larger in all States except Texas, where production of grapefruit, as of oranges, was cut by Hurricane Carla. In Florida, the 1961-62 crop of white seedless is substantially larger than the 1960-61 crop, and the crops of pink seedless and other varieties are up moderately.

In Arizona, where many recently planted lemont trees are coming into bearing, the 1961-62 lemon crop is expected to be more than 2-1/2 times the 1960-61 crop. In California, where most of the lemons continue to be grown, the October 1 condition of the new crop was better this year than last.

Total production of citrus fruits has trended slowly upward during the last decade, despite severe weather damage to trees and fruit in some years. The increases have been large enough to hold production per capita from falling. Relatively heavy plantings of orange trees in Florida and Texas, moderate plantings of grapefruit trees in Florida and heavy plantings in Texas, and heavy plantings of lemon trees in Arizona constitute potentials for increasing production of these fruits with favorable weather. Even if the weather is no better than average, some further increases can be expected over the next few years.

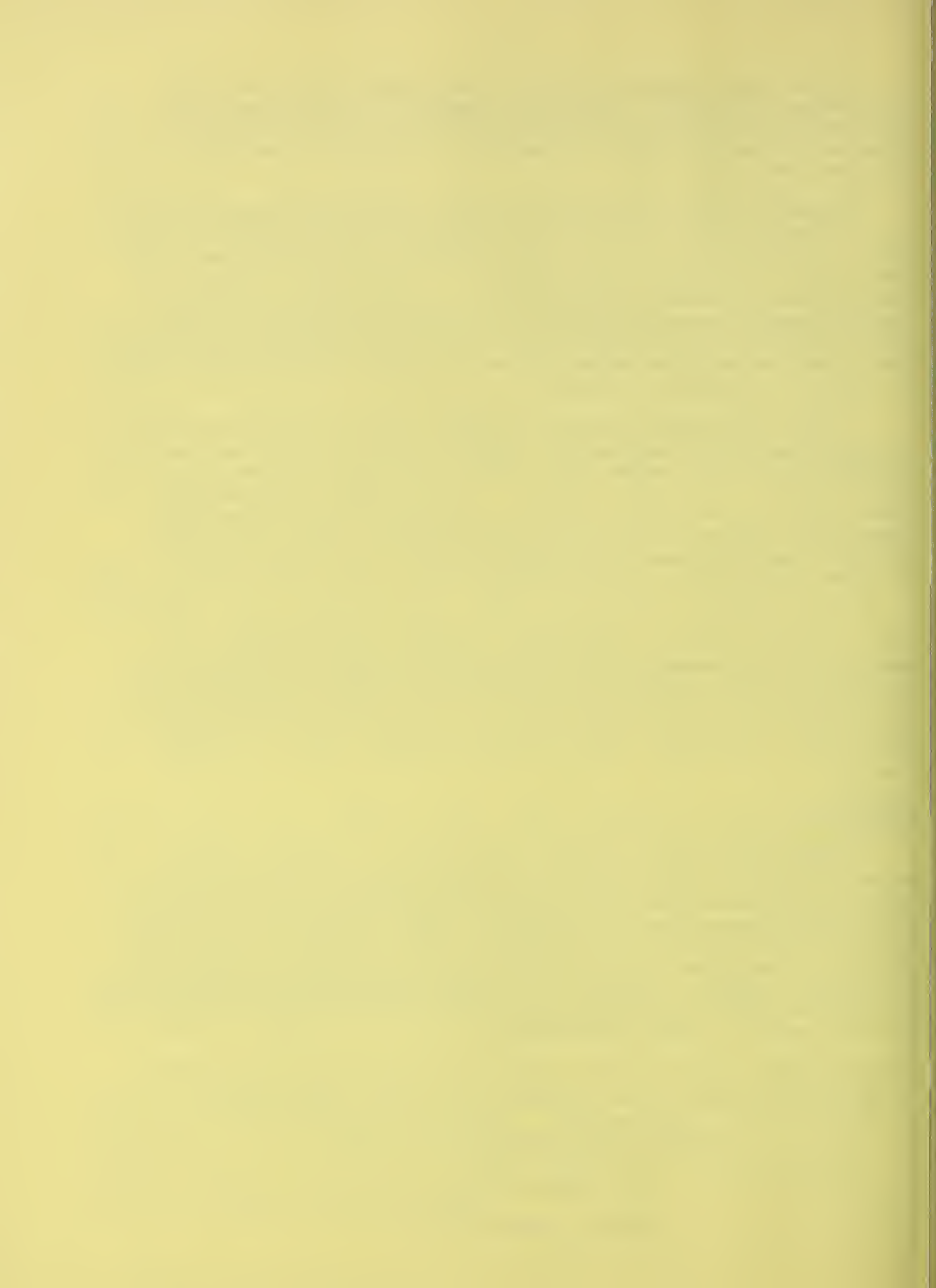
Harvest and market movement of the new citrus crops in Florida are reaching volume a few weeks earlier this fall than last, when the season was delayed by lack of mature fruit. Hence, early season movement of citrus should be noticeably larger this fall than last. Season-opening prices have been lower than a year ago. Important factors in marketing oranges this fall and winter are the larger supplies than in this period of 1960-61, mainly because of the expected larger crop, and increased carryover stocks of some processed items.

The 1960-61 pack of Florida frozen orange concentrate set a new record, 8 percent above the 1959-60 pack. Mainly because movement from **packers** to the trade was not quite as heavy as in 1959-60, carryover stocks are expected to be somewhat larger this fall than last. Output of various other Florida frozen citrus juices also was up in 1960-61. But output of most canned Florida citrus juices was down. Packers' stocks of canned orange juice were smaller, those of grapefruit juice larger, this fall than last.

Tree Nuts

Total production of the four edible tree nuts (almonds, filberts, pecans, and walnuts), which has been trending upward over the last decade, increased sharply this year to a new record about 18 percent above last year's large tonnage. Each of the crops is larger than last year and above average. However, most of the increase this year consisted of almonds and pecans. The new pecan crop is record large. Price prospects for the new crops do not appear as favorable as last year. Almond exports, which accounted for about two-thirds of 1960-61 tree nut exports, will encounter stronger foreign competition in the 1961-62 season.

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: This represents mostly the highlights of the 1962 Outlook issue of :
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: "The Fruit Situation" for October 1961 :
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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR LIVESTOCK AND MEATS IN 1962

Talk by Lawrence W. Van Meir
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 2:00 P.M., Tuesday, November 14, 1961

The outlook for 1962 is for hog prices somewhat below the 1961 level; lamb prices improved; over 1961; and an average farm price for all cattle and calves sold about the same as for 1961.

Some changes in prices for certain grades and classes of cattle are in prospect for next year. Fed cattle prices next spring and early summer are not expected to break as sharply as they did this year, but slaughter cow prices are expected to be lower during the late summer and fall due to an increase in cow slaughter.

CATTLE

Cattle slaughter this year will be in the neighborhood of 25.4 million head--up about 1 percent from the 25.2 million head slaughtered commercially last year. On the other hand, calf slaughter dropped from 8.2 million head in 1960 to about 7.7 million head this year.

Some significant patterns of slaughter are disguised in commercial slaughter totals. Whereas total commercial slaughter in 1961 will be about 1 percent above 1960, steer and heifer slaughter will be up about 5 percent. The increase in steer and heifer slaughter has been largely offset by a 9 percent reduction in cow slaughter.

Cow slaughter increased in 1960 after two years of below average slaughter. This increase is accredited to the generally pessimistic attitude that prevailed in the cattle industry last summer and fall. Excellent wheat pasture and improved cattle prices in the winter of 1960, coupled with a downward revision in cattle numbers this spring, and improved outlook for business conditions this summer, all contributed in turning the attitude of pessimism into one of optimism. Cow slaughter fell below year-earlier levels in March of this year and has continued under 1960 for the balance of the year. On the other hand, an expanding cattle feeding industry sent more heifers through feedlots and on to slaughter this year than in 1960.

In spite of the fact that slaughter increased only 1 percent from last year, beef production rose by about 3 percent. This increase in beef production is explained by the heavier average weight per head slaughtered this year. Average dressed weights rose as a result of increased live weights for steers and heifers slaughtered as well as the decreased proportion of cows in total slaughter.

The domestic supply of beef was augmented by somewhat larger imports of beef this year than last, bringing the total supply of beef to the record level of 15.6 billion pounds--up 3-1/3 percent from last year. With a population increase of 1.6 percent, per capita consumption in 1961 was boosted

to the record level of 86.7 pounds--about 2 percent above last year and also 2 percent above 1956, when commercial cattle slaughter of 26.9 million head exceeded this year's slaughter by 6 percent.

A good price recovery in the fall and early winter of 1960 brought the price of Choice slaughter steers at Chicago from a low of \$24.80 in September of 1960 to a high of \$27.42 in January of this year. The January 1961 price was a full dollar above January 1960. Prices dropped steadily from January to July--reaching a low in July of \$23.38 at Chicago.

This 18 percent drop in the price of Choice slaughter steers from January to July is largely the consequence of the increase in supply of beef that occurred in the late spring early summer period. Commercial beef production for the three months, May, June and July, amounted to 3.9 billion pounds--up 7 percent from 1960. The beef supply during these three months would be equivalent to an annual production of 16.6 billion pounds or an annual per capita consumption of 91.9 pounds. Competition from a 29 percent increase in poultry production during the same period of time also helped weaken beef prices this summer.

Sharply lower fed cattle prices and below average feeding profits apparently did not dim the enthusiasm of the cattle feeders. A good spring grass market plus strong feedlot demand carried feeder cattle prices on up to an April high of \$26.81 for Choice feeder steers at Kansas City. Prices dropped somewhat through the summer and fall but in general have held up rather well in light of the drop in fat cattle prices.

Utility cow prices averaged above 1960 in January and February and then held slightly below 1960 prices through July. The below average seasonal price decrease for cows this fall is due to the low level of cow slaughter. Slaughter cows have been above year-earlier levels since August.

The increase in cattle slaughter this year was more than offset by a larger calf crop, a reduction in calf slaughter, and slightly more live cattle imported from Canada and Mexico. Consequently the cattle and calf inventory is expected to show a larger gain by next January 1, than that achieved during 1960. The cattle and calf inventory January 1, 1962, is expected to range between 98.5-99 million head. Most of the gain is expected to be registered in the cow and calf categories.

The larger beginning inventory of cattle and calves January 1, 1962, will provide for an increase in the number of cattle slaughtered commercially. At the outset, we are not considering liquidation of cattle numbers in 1962. A study of range conditions in the 17 Western States from 1922-61 does not turn up clear evidence of a range condition cycle on which one could predict a widening of the drought that existed in the Northern Plains this summer.

The maximum cattle slaughter that could be sustained in 1962 without reducing cattle numbers would be about 28 percent of the beginning inventory or about 27.7 million head, providing that calf slaughter does not absorb a larger proportion of the calf crop than in 1961, and imports of live cattle are about equal to the average for the past four years. However, in the light of the strong market for feeder cattle in 1961, and the

large supplies of feed and forage on hand, cattle numbers are expected to expand further in 1962. Therefore, commercial slaughter is expected to be in the neighborhood of 26.5 million head with cattle numbers increased by the balance.

An inventory increase of the magnitude that occurred in 1960 and 1961 and is in prospect for next year is commensurate with the rate of growth of population and per capita disposable income. A sustained increase in cattle numbers in the neighborhood of 1-1/2 million head annually probably would lead to gradually improving cattle prices through time.

This year, beef production increased more than slaughter, due to an increase in the average dressed weight per animal slaughtered. Next year the reverse is expected to be true. A commercial slaughter of 26.5 million head would be 4 percent above this year's slaughter. However, commercial beef production is expected to be up only about 3 percent.

A little higher feed grain price level next spring and summer are expected to hold down the average live weight of fed steers and heifers somewhat. Furthermore, total commercial slaughter is expected to include substantially more cows than this year and slightly fewer fed heifers. For these reasons, average dressed weight is expected to be slightly below that of this year.

The increase in cow slaughter envisioned for 1962 is felt to be the natural result of a decreased rate of cull of cow herds for the past four years. This low rate of cull may have resulted in the accumulation of some 4.0 million head of aged cows which are expected to be replaced during the next 3-4 years. If cow slaughter increases as expected, then imports of processing beef would be expected to decline somewhat the last half of 1962.

The number of cattle and calves on feed in 26 States October 1 of this year was 8 percent above the October 1, 1960, inventory. This increase in cattle on feed is due to third quarter placements 14 percent above last year.

Marketings out of feedlots during the first quarter of 1962 will depend to a great extent on placements the fourth quarter of this year. Forty-six percent of the cattle marketed from January through March 1961 were placed on feed in the fourth quarter of 1960. Next year we might see more of the first quarter marketings come out of the carryover from October 1 and a fewer from fourth quarter placements.

Relatively stable prices are expected for fed cattle throughout most of the first quarter of 1962. Following this, prices are expected to move downward through the spring and summer, but a sharp drop similar to that of this year is not expected. By May, prices are expected to be above this year's level and are expected to remain above throughout the summer.

The increase expected in cow slaughter next year will be accompanied by lower slaughter cow prices, especially for Canner and Cutter cows. This price weakness will be most pronounced in the late summer and fall. Some of the impact of the increase in domestic cow slaughter will be offset by decreased imports of processing beef the latter part of next year. Price weakness will be less pronounced for Utility and Commercial cows and will also be reflected to some extent in lower grade steers and heifers.

HOGS

Hog producers enjoyed a good year pricewise through September. The 1960 fall pig crop, 3 percent below that of 1951, has held hog slaughter and pork production below 1960 levels through September of this year. The 1961 spring pig crop was 7 percent above last year, but the increase was concentrated in April and May. Consequently, slaughter did not reflect the gain in spring farrowings until October.

Prices averaged \$17.49 at 8 markets during the January-September period and reached the year's high of \$18.47 the last half of August as a recovery in cattle prices added some strength to the hog market.

Weekly slaughter in Federally inspected plants during October has averaged 8-10 percent above year-earlier levels and prices dropped from \$18.40 the last week of September to \$16.37 the last week of October. Slaughter will continue high through November but the greatest price drop has already occurred.

Producers in 10 Corn Belt States indicated on September 1 this year about the same June-August farrowing season as in 1960. They reported intentions to increase September-November farrowings by 5 percent. Therefore, this year's fall pig crop likely will be 2-3 percent above last year's with the increase coming in the last half of the fall farrowing season. The increase coming in fall farrowings will not affect marketings substantially until next spring.

The hog-corn ratio at the farm level likely will not go below 15 this fall and winter. This would suggest a further expansion in next year's spring pig crop. Producers in 10 Corn Belt States also reported intentions in September to increase December-February farrowings by 4 percent. Considering the fact that the bulk of the increase in this year's spring pig crop came in April and May, we would not look for a similar large increase again over the large farrowings of this April and May. However, some increase in farrowings the second half of next year's spring pig crop is expected.

If the increase in the 1962 spring pig crop is nominal, say somewhere in the neighborhood of 3-4 percent, serious price consequences would not be expected. An increase of this magnitude probably would boost per capita consumption of pork by about 0.5 pound and would not pose a per capita consumption of the nature that would require a sharp downward adjustment of prices. On the other hand, if the increase in next year's spring pig crop exceeded 5 percent, per capita supplies next fall would be in the range where only sharply lower pork prices could move the volume of pork production into consumption.

SHEEP AND LAMBS

One of the highest rates of lamb slaughter since 1955 was maintained during September and October 1960. This high level of slaughter took lamb prices to a discouragingly low level. Before much of a seasonal comeback could be achieved in price, slaughter again increased and prices were kept under pressure of a high slaughter rate throughout all of this year.

First quarter slaughter in 1961 exceeded that of 1960 by 10 percent. Sheep and lamb slaughter built up sharply during this spring with a Federally Inspected slaughter of 1,358,000 lambs in May of this year. This is the largest slaughter for a May since 1946 and the largest FI slaughter for one month since 1956. Part of the slaughter the first half of this year came from ewe lambs that were originally intended for flock replacement. Wheat pastures also added to slaughter supply. The Eastern markets were so supplied with lamb from Texas and the Corn Belt, that a price differential sufficient to enable early California lambs to move to the East Coast did not develop. Therefore, West Coast markets had to absorb the complete California early lamb crop with sharply lower prices resulting.

Lamb prices are beginning to show some tendency to strengthen in the last week or two. This tendency likely will continue in the coming weeks with a rather good price recovery in the winter months. A recurrence of last year's weak first quarter price structure for lambs is not in prospect for next year. Slaughter this year included a large number of ewe lambs that were originally intended for flock replacement. We will not have this source of slaughter lambs next year. Furthermore, fewer lambs are expected to be on feed this year than a year ago. All of this points to a strong late winter lamb market. A later Easter in 1962 and decreased competition from old crop lam

A later Easter in 1962 and decreased competition from old crop lambs likely will produce a good market for early spring lambs.

Sheep and lamb numbers are expected to be near 32 million next January--almost a million below this year's inventory. Consequently the 1962 lamb crop is expected to be below this year's, which will in turn tend to strengthen lamb prices throughout next year.



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR MILK PRODUCTS IN 1962

Statement by Herman Bluestone and Anthony S. Rojko
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 9:15 A.M., Wednesday, November 15, 1961

Stable and dynamic are two seemingly conflicting and contradictory attributes, yet both can be appropriately used to characterize the dairy industry. It is important that we keep these two attributes clearly in mind as we gaze into the crystal ball for the 1962 dairy outlook. On the surface, the dairy industry exhibits unusual stability as is evidenced by the normally small year-to-year changes in these three important measures-- (1) total milk production, (2) aggregate consumption of dairy products, and (3) dairy farm income.

But their stability rests on the delicate balance among a large number of elements, some of which are undergoing dynamic changes. On the production side, upward pressures toward larger milk production from increased productivity per cow and improved incomes from increased scale of operation have been offset by declines in number of milk cows and number of dairy farms. On the consumption side, the product mix has been greatly altered by divergent trends in the use of dairy products high in milkfat compared with those high in solids-not-fat. These have had an impact on consumer expenditures of dairy products.

Although normally the changes in the three important measures-- total production, consumption, and dairy farm income--are small, the precarious balance can be upset and result in substantial changes when changes in the components of any one of these measures move in the same direction. When this happens, the supply-demand balance for dairy products becomes greatly affected, as for example the large surplus position in 1953.

In many respects, the dairy situation in 1961 and the outlook for 1962 reflect some of the dynamic changes that are operating in the same direction and therefore coming to the surface. Keeping in mind the underlying dynamic changes that are continually taking place, let us take a broad look at the prospects for 1962.

Milk production in 1962 is expected again to register another significant increase as it did in 1961. The decline in commercial demand that took place in 1961 may be arrested in 1962 as we get increased economic activity in the general economy. But this probably will not be sufficient to increase aggregate commercial consumption of dairy products above the 1961 level. The larger milk supplies accompanied with very little, if any, increase in commercial demand will result in CCC purchases in 1962 that will exceed the large purchases in 1961 and may come close to the high levels of 1953 and 1954. Prices to farmers and consumers through next March, 1962 will be little different from current levels. Thereafter, the level of price supports to be announced before April 1 will be an important determinant of dairy prices. Cash receipts from farmers' sales of dairy products may again reach another new record in 1962 as they did in 1961. However, higher costs of production will have an offsetting effect on dairy farming income.

We are now apparently in an expansion phase in milk production. Several years of continued favorable milk-feed price relationships, accompanied by some sliding off in beef cattle prices from the high levels in 1959, reversed a three-year decline in milk production from a peak in 1956. Two increases in price supports, first in September 1960 and again in March 1961, provided further stimuli to the upturn. Also important is the recovery in annual rate of improvement in output per cow and the slowdown in downtrend in milk cow numbers. After having faltered in 1960 and earlier this year, milk production per cow is again increasing at the rate of about 4 percent a year, a rate that characterized the 1955-59 period. During the last two years, the downtrend in milk cow numbers slowed considerably. After having declined by 5 percent in 1958 and 4 percent in 1959, the decline was held to only 2 percent in 1960 and only 1 percent this year.

In short, a smaller number of dairymen with fewer total cows but in larger size herds were able to expand output by about 2 billion pounds in 1961 to reach 125 billion pounds. With further increases expected in milk production per cow in 1962 as farmers continue to feed heavy quantities of concentrates, fewer dairymen with fewer total cows may again increase milk output by a like amount in 1962. Although feed prices are expected to be a little higher, the milk-feed price relationship, expected to be below 1961, will still be favorable in relation to long-term averages. The dynamic nature of these components of production can be illustrated by the following:

In 1959, milk production was about the same as in 1954, but between 1954 and 1959 the number of farms with milk cows decreased 39 percent, while the average number of cows per farm increased 33 percent and the output per cow increased 20 percent. It is evident that with such large changes in any of the component parts making up total output, the potential for a larger increase in milk production than that projected for 1962 is always present.

In 1961, commercial demand for dairy products dropped sharply as less butter and fluid milk were sold than in the three previous years. From 1958-60 per capita consumption of butter and fluid milk from the commercial sector drifted lower but gains in population held aggregate consumption relatively unchanged. Increased use of American and other cheese was the only bright spot in the consumption picture in 1961. Demand for cheese may continue strong in 1962. Nonfat dry milk consumption per capita from commercial sources in 1961 was significantly below 1960, reflecting two successive increases in the CCC purchase prices since August of 1960. Apparently the decline in industrial use, which comprises 80 percent of the use, was not offset by greater consumption in homes. Although some recovery in commercial demand for dairy products should follow the rise in economic activity, the recovery in 1962 may not be sufficient to improve aggregate commercial consumption above the 1961 level.

As an offset to the weaker commercial demand, significantly larger quantities of dairy products, particularly cheese, will be distributed by the CCC to needy persons in 1962. As a result, the total civilian consumption of dairy products from all sources, measured both in terms of

milkfat and solids-not-fat, may be higher in 1962 than this year, even though on a per capita basis use may be about the same as in 1961. In 1961, per capita consumption of milkfat in all forms, both fluid and manufactured, is about $24\frac{1}{2}$ pounds per person compared with $32\frac{1}{2}$ pounds twenty years ago. In contrast to the downtrend in milkfat demand, the demand for solids-not-fat has been increasing with per capita consumption reaching 44 pounds in the last few years compared with around 38 pounds twenty years ago.

With a substantial increase in milk production in prospect next year and with little change expected in aggregate civilian consumption from commercial sources, larger quantities of dairy products will probably be offered to the CCC for price support in 1962 than a year earlier. In terms of milkfat, quantities offered are likely to be near the large amounts of 1953 and 1954; and in terms of solids-not-fat, they may be record high. This year the Government will purchase about 6 percent of all the milkfat produced and 9 percent of the solids-not-fat, compared with 3 and 8 percent in 1960. Government supplies of butter in 1962 may be sufficiently large to permit a significant increase in U. S. exports under Government programs for the first time since 1956.



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE OUTLOOK FOR PEANUTS IN 1961-62

Talk by George W. Kromer
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 1:30 P. M., Wednesday, November 15, 1961

The total supply of farmers' stock peanuts during the 1961-62 marketing year that began August 1, 1961, is currently estimated at 2,080 million pounds, 5 percent less than last year. Both starting stocks and output are down this year. The 1961 peanut crop is nevertheless considerably in excess of probable food and farm uses, and CCC will acquire the surplus under the support program.

The 1961 peanut crop was estimated as of October 1, 1961, at 1,742 million pounds compared with 1,784 million in 1960. Most of the decline is in the Southeast area although output is down slightly in the Southwestern and Virginia-Carolina areas. The decline is due to lower yields per acre--1,230 pounds this year compared with the 1960 record yield of 1,265 pounds per acre--as the acreage to be picked and threshed at 1,417,000 acres is about the same as the acreage harvested for nuts last year. Acreage allotments for 1961-crop peanuts are again at the legal minimum of 1,610,000 acres for picking and threshing. On the other hand because of the longer term uptrend in yields, production of peanuts from the minimum allotment provides a surplus of peanuts above edible requirements even though population is increasing.

The 1961-62 outlook is for farm prices of peanuts to average around 10 percent higher than the 10.0 cents per pound received last year, reflecting the increase in the 1961 support rate. The 1961 crop of peanuts is in excess of food and farm requirements and farm prices likely will average near the CCC support rate, as in recent years.

Prices to farmers for 1961 crop Spanish and Runner type peanuts so far this season are averaging at about the support level, 7-8 percent more than last year. Virginia-Carolina peanuts have just started to move in volume and prices are also running near the higher loan rate for this year.

The 1961 crop peanuts is being supported at a national average level of 11.0 cents per pound (\$221 per ton), compared with 10.1 cents per pound (\$201.24 per ton), for the previous crop. The 1961 support price is 85 percent of parity compared with 78 percent in 1960. Support prices for various types of peanuts are as follows: Virginia, \$233.69 per ton; Runner, \$207.84; Southeast Spanish, \$224.12;

Southwest Spanish, \$217.37; and Valencia type suitable for cleaning and roasting, \$233.82. The practice of deducting a fee of \$9.00 per ton from growers' support prices for inspection, growers association expenses, and monthly storage has been discontinued.

Principal provisions of the 1961 program are similar to those in effect for the 1960 crop. Price supports are available by means of non-recourse warehouse storage loans to grower associations, non-recourse farm storage loans to producers, and purchase agreements. Loans on 1961 crop peanuts are available to individual producers and grower associations through January 31, 1962; they will mature May 31, 1962, or earlier on demand by CCC.

Civilian consumption of peanuts in the post World War II era has been relatively stable averaging about 6.5 pounds per person, farmers' stock basis (4.5 pounds shelled basis), about the same as for 1937-41. Supplies of peanuts in most years were plentiful, and prices to growers averaged near support. Of the normal consumption of 6.5 pounds per capita, about 5.5 pounds are usually consumed in the form of peanut butter, salted peanuts, and in candy. The other pound is almost equally divided between roasted peanuts (the ball park type) and those consumed as food on farms.

The 6.5 pounds per person consumption rate is expected to prevail during the 1961-62 marketing year. With population gain in prospect, this means that total consumption of peanuts will rise slightly. Assuming a slight increase in total peanut consumption and farm uses about the same as in recent years, around 375 million pounds or 20 percent of the 1961 crop would be available for crushing, exports, and addition to stocks.

A large quantity of 1961 crop peanuts acquired by CCC under the 1961 support program will be diverted by the Corporation into peanut butter manufacture for distribution to school lunches and needy persons. Preliminary estimates are that 75-100 million pounds of 1961 farmers' stock peanuts may eventually wind up in the CCC peanut butter program (Section 32 and donation programs). The total quantity crushed, exported, diverted into peanut butter manufacture for donation, or carried over next August 1 depends upon the CCC diversion policy.

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: Economic outlook information for peanuts is published regularly :
: in the Fats and Oils Situation, a processed publication by the :
: Economic Research Service, Economic and Statistical Analysis :
: Division. This statement is a summary from the 1962 Outlook :
: Issue, FOS-210 for November 1961. :
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UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR POULTRY AND EGGS IN 1962

Talk by Edward Karpoff
Price Division, ASCS
at the 39th Annual Agricultural Outlook Conference
Washington, D.C. Wednesday, November 15, 1961

The meat and the egg segments of the poultry industry are entering 1962 from very different positions -- the meat producers, both broilers and turkeys, from a position of abject misery, and the egg producer from a position of relative comfort.

On a historical basis, poultry meat prices are low. Mid-October turkey prices to farmers at 17.4 cents per pound were the lowest since 1941, and recent broiler prices, -- as low as 11.7 cents two months ago -- were the lowest since monthly records began in 1940. These prices are so low that a witty superficial observer might say the only way they have to go is up. This is probably true, but part of what bothers me is that I do not yet see any positive manifestations of the kind of supply shrinkage that it would take to push them up.

Aside from no imminent supply shrinkage of a magnitude to push broiler and turkey prices up in the immediate weeks ahead, the prospects are made glum by the low-price image for broilers and turkeys which has been reinforced in consumers' minds over the past 6 months. In many parts of the United States, ready-to-cook broilers retailed at 19 to 25 cents per pound, and turkeys at prices at or below 30 cents per pound. These prices have conditioned consumers to accept low poultry prices as the norm. When supplies finally are cut and higher average prices would normally be expected, it is possible that a few months may elapse before consumers fully accept the changed price situation.

Turkeys

For turkeys, an adequate supply shrinkage cannot develop before about August, 1962. Until that time, turkey markets will be heavily supplied from turkeys presently on hand -- some of the hoof, some already in or soon to go into storage. Thus, even if the proposed Marketing Orders for turkeys and for turkey hatching eggs were to soon become effective, they could not influence market supplies until late summer 1962. Late summer would thus be the earliest that one might expect a restoration of turkey prices to 1960 levels. And to achieve such prices, the level of production ought to move back to the 1960 level, when, you will remember, about 85 million birds were raised, contrasted with the 107 million of 1961. Such a production cut is not likely to occur. Left alone, the 1962 turkey crop is likely again to be a large one, although possibly not fully up to the 1961 record; farmers' October intentions were to have a January 1 flock of turkey breeder hens only 3 percent smaller than the flock which yielded the 1961 record crop.

Broilers

An uncomfortably high level of broiler supply is not assured for a period so far in advance as that which governs turkey supply, but neither is there any positive indication of readjustment. Hatching egg settings in late October and early November were below year-ago by 4-6 percent, but this will not bring January slaughter down to a point sufficient to create a noticeable supply pinch. For the more distant future, recent sales of breeder pullet chicks have been at a level to assure an ample supply of hatching eggs from a breeder flock which -- through February -- could actually be larger than the flock of the preceding year.

Why the broiler industry persists in this over-production, is alleged to be a mystery by some observers, who cloak their puzzlement by claiming that the industry must be making money. With this interpretation I emphatically disagree. To me, the most plausible explanation for the continued large production is the strategy of the large integrated producers. Each wants to hold or even increase his market share, and each operates with the knowledge that his competitors are suffering, and hence may eventually re-trench.

Hoping that this re-trenchment on the part of the competition will soon occur, the firms that can muster the financial resources maintain production. From an individual viewpoint, this is an intelligent decision; but when all the players in this game -- and game theory actually does apply in its analysis, more effectively than equilibrium analysis -- to repeat when most of the players in this game are equally intelligent, and when many of them had access both to (a) good financial reserves built up in the profitable year of 1960, and to (b) long lines of credit from suppliers, the attrition process can be a long one. Meanwhile the consumer is subsidized with cheap poultry.

Eggs

Presently, the egg situation is a much more pleasant one than that which I have just described for poultry meat. Although egg prices are now significantly below year-ago -- in mid-October, 37 cents per dozen as the U. S. average, compared 43.8 the year before -- they are encouraging an interest in egg-type chicks. August and September hatchings were up from the year before by 26 and 32 percent respectively; eggs in incubators October 1, were up 48 percent. Percentage increases of this magnitude at any time between January 1 and July 1 would be alarming; in the fall months of seasonally lighter hatchings, they are nevertheless of serious concern, because the percentages I have cited are equivalent to 8 to 9 million extra pullets.

Despite these hatchings, the supply of eggs for the next 6 months or thereabouts is already "made" by the number of birds already available. The number of "potential layers" (actually, layers plus pullets not yet of laying age) was about the same on November 1 this year as on the same date last year -- 352 million this year, 353 million last. This means that through the first few months of 1962 the laying flock will be essentially the same as year earlier. But as the spring progresses there will be more new pullets to add, and by summer the flock will be larger than 1961.

In practically every month of the next 12, this flock is likely to lay more eggs than the flock of a year earlier. Not only will better management and related factors extend the year-to-year trend for higher rate of lay, but there may also be some boost from the increased proportion of pullets in the present flock. On November 1 this year the U. S. laying flock was larger than last year by only slightly more than 1 percent, but egg production as of that date was more than 5 percent greater than the year before, on account of the 4 percent higher rate of lay.

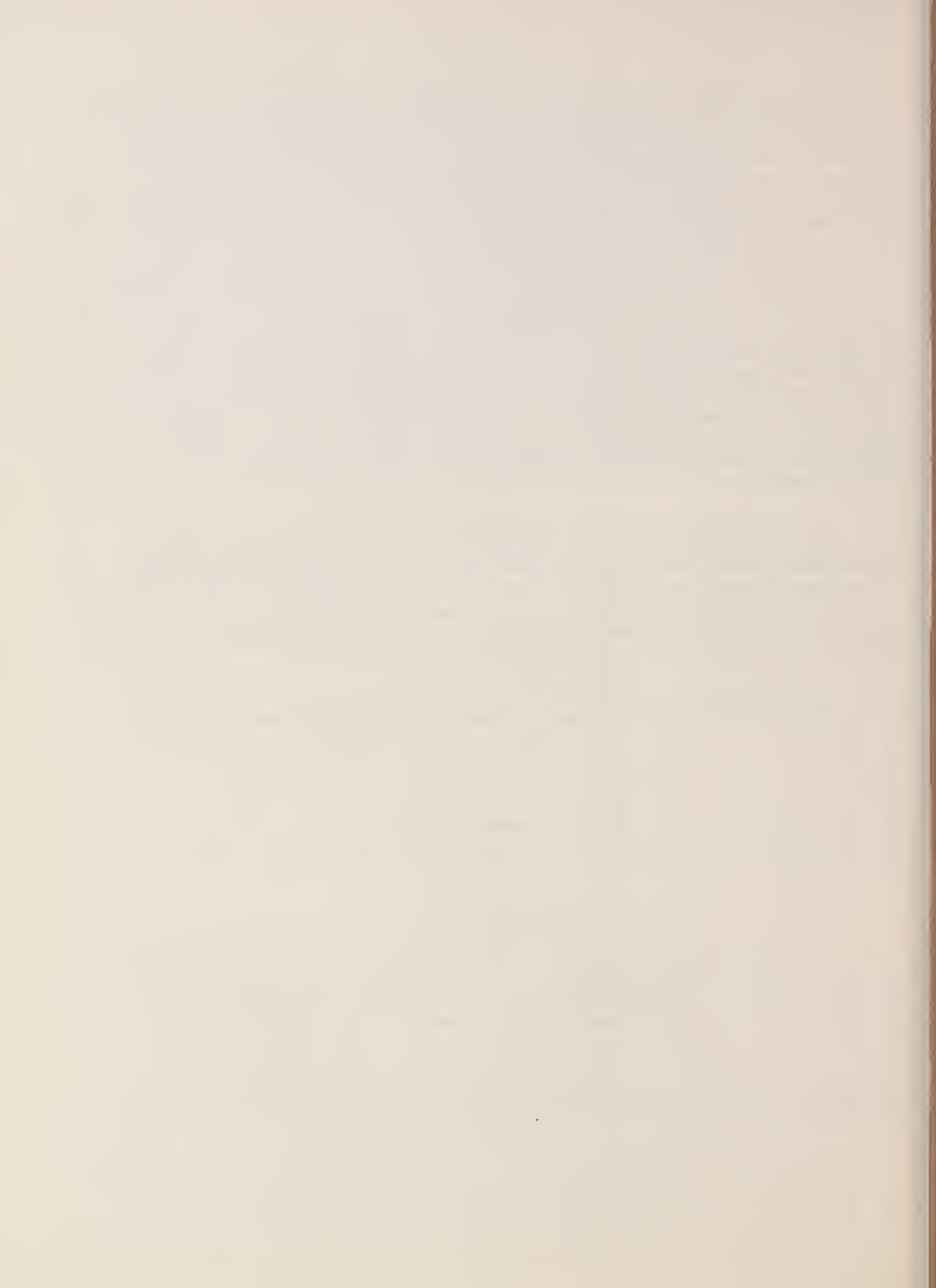
Despite the prospective larger supplies of eggs, the price of eggs in the next few months is not likely to slide off abruptly. The sustaining factor that I anticipate is the demand for eggs for breaking. Present stocks of frozen eggs are low -- on October 1, 29 percent below last year. If the same percentage relation is carried to November 1, the difference between this year and last is about 33 million pounds -- .8 million cases. The need for frozen egg products, that ordinarily would have come from stocks, will probably induce more commercial breaking in the next few months than occurred in the same months last year, and this will tend to sustain egg prices.

These prospective relatively sustained egg prices -- let's say into the first 6 or 8 weeks of 1962, possibly longer -- may carry with them a producer response. Even though these prices as I envision them would be lower than January-March 1961, I fear they may stimulate an interest in raising more chickens. (This is why Economics is called "the dismal science".) If the increase is more than just a couple of percentage points, egg prices in the fall are likely to suffer.

My own hunch is that by the end of spring the cumulative increase in the replacement hatch will be more than merely nominal -- let's say it may be 5 to 8 percent, recognizing the fall increases that I have already cited. One pressure toward this may come from southern broiler producers who recognize that concrete floors and nests will convert broiler houses to laying houses, and whose feed suppliers can mix laying rations as well as broiler mash. So 1962 doesn't look like as good a year for egg producers as 1961, and 1961, after the first 3 months, wasn't nearly as good as 1960.

In Closing ...

Many of you know that this is my valedictory speech to this group on the poultry outlook. The first one was in 1949. Every year this session has been a stimulating one, and the discipline of preparing for it has been one of the things that keeps an outlook worker on his toes. In my new job I shall miss this formal contact, but I hope to continue to work with many of you, and to profit from your advice, because I will remain in the poultry field in my work in ASCS. I only wish that this valedictory were being given at the threshold of the most rousing egg and poultry year ever.



UNITED STATES DEPARTMENT OF AGRICULTURE

OUTLOOK FOR RICE

Statement by
Robert E. Post

Economic and Statistical Analysis Division, Economic Research Service
and

Dexter V. Rivenburgh
Grain and Feed Division, Foreign Agricultural Service
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., Thursday, November 16, 1961

Acreage controls and large-scale exports, principally under Government programs, have reduced the carryover stocks of rice to only about a fourth of the record level 5 years ago of 34.6 million cwt., rough rice equivalent. The carryover on August 1, 1962, is expected to be about 9.0 million cwt. with little change likely in 1963. A carryover at this level seems adequate to supplement two years of poor crops and still hold exports at present levels under existing programs.

The Rice Situation in 1961-62

The U.S. supply of rice in 1961-62 is estimated at 65.0 million cwt., 3 percent below the supply a year ago and about 10 percent below the 1955-59 average. Supplies consist of a carryover August 1, 1961, of 10.1 million cwt., 2.0 million below a year earlier (see table); production in 1961 estimated at 54.7, only slightly above the 54.6 million in 1960, and imports of about 0.2 million cwt.

Domestic disappearance in 1961-62 is estimated at 27.3 million cwt. Food use is estimated at 20.0 million cwt., up slightly from the 19.8 million in 1960-61; brewers' use at 5.0 million, slightly above a year earlier; feed use of possibly 0.2 million and seed use of 2.1 million, both the same as last year. Exports in 1961-62 are estimated at around 28.7 million cwt. compared with 29.6 million a year earlier. On the basis of these figures, the carryover August 1, 1962 would total about 9.0 million cwt., down from the 10.1 million on August 1, 1961, continuing the reduction of the past several years.

Rice Acreage, Yield and Production

Rice yields per harvested acre increased gradually from 1945 to 1954, except for a drop in 1951. Along with increased yields, acreage showed an upward trend and, following the bumper crop produced in 1954, it became necessary to establish acreage allotments and proclaim marketing quotas for the 1955 crop. Although this action reduced acreages, yields increased sharply in 1955 and continued to increase through 1960. In spite of the increased yields, acreage control has held production well below the record 1954 level, but not enough to permit discontinuing marketing quotas. The October 1 estimate of harvested acreage in 1961 of 1.6 million acres, yield of 34.24 cwt. and production of 54.7 million cwt. are not much changed from 1960.

Legislation

Current legislation provides that if growers do not disapprove marketing quotas, the support price for rice is determined at the discretion of the Secretary of Agriculture. However, the support level cannot be in excess of 90 percent of parity, nor less than 70 percent of parity for the 1961 crop and 65 percent of parity for the 1962 and subsequent crops. The support price for 1961-crop rice was set at \$4.71 per cwt., 78.5 percent of the August 1961 parity price.

The National Acreage Allotment for the 1961 crop was proclaimed at 1,652,596 acres, the minimum permitted by law. Without this provision, the 1961 computed allotment would have been 1,538,847 acres. Beginning with the 1961 crop, acreage allotments and marketing quotas were required to be proclaimed for the next succeeding year whenever the total supply exceeded the normal supply (P.L. 86-408). For 1960, and earlier years, such proclamation was required only when the total supply exceeded normal supply by more than 10 percent. The national rice acreage allotment is apportioned to States and farms on the basis of producer's history or farm history. Farm history is used only when recommended by State Committees and approved by the Secretary. This is the only commodity for which legislation provides for the establishment of farm allotments on the basis of personal or producer history.

Rice, in terms of rough: Supply and distribution, United States,
1956-61 and 1962 : projected 1/

Items	Year beginning August 1						
	1956	1957	1958	1959	1960 2/	1961 2/	1962 3/
	Mil. cwt.	Mil. cwt.	Mil. cwt.	Mil. cwt.	Mil. cwt.	Mil. cwt.	Mil. cwt.
Supply							
Carryover, August 1	34.6	20.1	18.2	15.7	12.1	10.1	9.0
Farm production 4/	49.5	43.0	44.8	53.7	54.6	54.7	55.0
Imports 5/	.4	.2	.2	.8	.3	.2	.2
Total 6/	84.6	62.8	61.5	69.3	66.7	65.0	64.2
Domestic Disappearance							
Food 7/	19.3	19.0	18.8	20.7	19.8	20.0	20.1
Industry 8/	5.1	4.8	4.7	5.0	4.9	5.0	5.0
Feed and Seed	2.6	2.5	2.6	2.3	2.3	2.3	2.3
Total	27.0	26.3	26.1	28.0	27.0	27.3	27.4
Exports	37.5	18.3	19.7	29.2	29.6	28.7	28.1
Total disappearance	64.5	44.6	45.8	57.2	56.6	56.0	55.5
Ending stocks	20.1	18.2	15.7	12.1	10.1	9.0	8.7

1/ Milled rice converted to rough basis at annual extraction rate. 2/ Preliminary. 3/ Projected. 4/ Includes estimates of production in minor States. 5/ Consist mostly of broken rice. 6/ Adjusted to equal total distribution. 7/ Includes shipments to territories and military food use at home and abroad. 8/ Primarily for beer production.

The U.S. Rice Outlook for 1962-63

If about the same acreage of rice is harvested in 1962 as the 1,597,000 acres in 1961 and if yields of 34.44 cwt. are obtained (slightly above the average of the past 3 years), a crop of about 55.0 million cwt. would be produced. This is only slightly above the 54.7 million cwt. in 1961 but 11 percent above the 1955-59 average of 49.4 million cwt. With a carryover August 1, 1962, of about 9.0 million cwt. and imports of about 0.2 million, supplies would total 64.2 million cwt.

Domestic disappearance is estimated at 27.4 million cwt., about the same as the 27.3 million estimated for 1961-62. Exports in 1962-63 are projected at about 28 million cwt. which compares with 28.7 million estimated for 1961-62 and 24.6 million cwt., the 1955-59 average. On this basis, the carryover of rice on August 1, 1963, may be about the same as the 9.0 million estimated for August 1, 1962.

Announcements relating to acreage allotments, marketing quotas and the price support for the 1962 rice crop are not expected to be made before mid-November of this year.

Rice Prices and Support Program

Prices received by farmers for rice, including an allowance for unredeemed loans and purchase agreement deliveries, have averaged above support levels in all but 2 years, 1951-52 and 1954-55. In 1960-61, they averaged 17 cents above the national support of \$4.42 per cwt. In 1961-62, they are again expected to average well above the support rate announced at \$4.71 per cwt.

Farmers put 24 percent to their 1960-crop rice under price support, compared with 23 percent of their 1959 crop. Of the 13.1 million cwt. put under price support from the 1960 crop, farmers delivered 4.9 million cwt. to the CCC. The year before, farmers delivered 7.0 million cwt. out of 12.3 million put under support. Bluebonnet and Nato in the South and Calrose in California were the principal varieties delivered to CCC of the 1960 crop.

The International Trade Outlook for Rice

International trade in rice during the past calendar year showed a considerable degree of stability, perhaps the best in the past decade. This has occurred despite the fact that the world rice crop from which the export supplies were drawn was a record one, some 3 percent above the previous 1958-59 high.

Demand for rice remained relatively strong throughout 1960 with prices steady during the first half and with some strengthening during the second half. This was particularly true for long grain varieties. Exports from major exporting countries such as Burma, Thailand, the United States, Italy, and Egypt were maintained at relatively high levels. In the case of exports from Burma and Thailand, which accounted for over 50 percent of total world trade, they were practically all committed for the year by September 1.

The situation in calendar 1961 substantiated earlier conclusions that the rate of increase in world production has not kept up with the rise in

requirements for rice as a basic food. This is borne out by the fact that in the past decade, when production increases were relatively heavy, world trade in rice has shown a continued growth. For the past 3 years, there have been no surplus stocks of rice in countries other than the United States. Prices have remained more stable during these 3 years than for any similar period since World War II. The rate of economic development, particularly in deficit countries where rice is an important item in the diet, is a major factor in establishing levels of trade. The existing world trade largely represents the effective requirements supplied through commercial transactions including concessional sales. There are, in addition, relatively large population segments unable to obtain adequate supplies to meet even minimum requirements through their own resources.

Total requirements for rice will undoubtedly continue to rise in 1962 with some unfilled current demands for the less expensive grades of rice having to be supplied after the beginning of the year. It is quite possible that world trade totals may not be quite as large as have been the case in the past 2 years. Exports from Viet Nam and Egypt are unlikely and this will reduce overall world export supplies by about 6 percent compared with the past year. Supplies from Communist sources, principally Mainland China, will continue to be far below the volume exported 3 and 4 years ago.

The United States Trade Outlook for Rice

U. S. exports of rice in the first half of calendar year 1962 are likely to continue at around current levels. They may increase in the second half if Asian and other export supplies are committed early in the year. U. S. exports may not reach the level of calendar 1961, reflecting smaller supplies rather than any reduction in effective demand. Exports for dollars should continue to rise and should again be substantial enough to offset the loss of the Cuban market.

Of the total exports in the 1960-61 marketing year of 29.6 million cwt., rough rice equivalent, 10.4 million, or 35 percent, were dollar sales. While exports for dollars remained at about the same level as last year, the increase in total exports and in Government programs brought down the percentage of dollar sales.

Export prices are likely to remain fairly steady until at least about June, after which a moderate strengthening of prices may occur similar to that of the past year, being most apparent for long grain varieties. Medium grain varieties may share in the advance in a limited way. Short grain rice is less likely to follow such a pattern. Prospects for next year appear to be good for the U. S. rice industry.

UNITED STATES DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE

OUTLOOK FOR SUPPLIES AND PRICES OF FOOD

Statement by Robert J. Lavell
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D.C., 2:00 p.m., Tuesday, November 14, 1961

As indicated in the program, my topic is the outlook for supplies and prices of food -- at the retail level. This includes the outlook not only for the rest of this year and the early part of next, which supplies for the most part have already been harvested or are in production, but also the outlook for all of 1962.

As of now, food supplies are somewhat above the high level of last winter. Food from most crops will be more plentiful in spite of the drop in total crop production this past year. The drop resulted primarily from the Feed Grain Program and the drought damage to spring wheat. But, since we have heavy carryovers of feed and food grains, we have more than enough supplies for consumption. Supplies of food from livestock are also larger than they were this season last year.

Of course, we now have more people wanting this food, and more money to buy it. Consumer disposable incomes in 1961 are running around 3 1/2 percent above 1960 and are expected to continue at an even higher rate for the remainder of the year. With population up only a little over 1 1/2 percent, retail food prices so far this year have averaged about 2 percent above the same period of 1960. However, for the rest of this year, they are expected to average a little below the level of last winter because of increased supplies and lower prices of pork, poultry and eggs.

In 1962, we again expect a larger volume of food available for consumption than was available in 1961. This will include greater variety and new forms, and many foods will be more available than they have been in the past. The outlook for marketing and new products will be covered by Mr. Dwoskin, who is next on the program.

With average growing conditions, production of food from crops should be about the same in 1962 as it was this year. Livestock production, however, is expected to continue the uptrend through 1962.

I would like to emphasize that these food supplies are virtually assured for next year. The basis for a large part of them is already in existence. For instance, the number of cattle on hand is increasing, which means more available for slaughter next year if producers don't hold too many for increasing their herds, which is unlikely under the price conditions that are likely to prevail next year. And so far as next year's milk supply is concerned, the cows that will be producing most of the milk are already in the herds, and we know the average production per cow. The fall pig crop will be up about 2 percent, and these hogs will be available for slaughter the first half of 1962. In addition, last September hog producers indicated that the first half of next spring's crop will be up about 4 percent, and we expect the last half to be about as large. This will give us the hogs for the last half of the year. The chickens that will lay most of the eggs in 1962 are already in the flocks, so the supply of eggs can be fairly accurately projected. Since broilers take only 9 weeks from hatching to market, we don't have 1962's chickens on hand. But, it is likely that broiler production will continue heavy in 1962, because the same forces that encouraged output in 1961 will be evident in 1962, and the physical facilities to sustain or even increase production are there. For next year's turkeys, we have a report on the intentions of farmers to hold breeding hens. These are the major pieces of direct evidences of what next year's food supply will be.

For most crops it is too early yet for planting intentions to be known. Programs, crop yields, and relative prices all are considered in the judgment of officials here in the Department who estimate what producers probably will do under the conditions expected for next year. The judgments are based on what farmers have done under the various conditions of previous years.

The demand for the 1962 food supply is largely in evidence today. The population will continue to increase at about the same rate next year, and expanding economic activity points to a continued rise in consumer incomes. These two factors should again bring increased expenditures for food in 1962. But, with the abundant supplies of livestock products and food crops we expect next year, average retail food prices are not expected to rise much in 1962. What increase there may be, possibly up to 1 percent, will come mostly from higher marketing costs because of increased wage rates, higher transportation costs -- and we will be demanding more marketing services than ever before. With all this money and all this food at relatively favorable prices around next year, per capita consumption may again increase slightly in 1962.

Now for a summary of the outlook for major foods for the rest of this year and next. More details about the probable supplies of these foods may be found in the outlook issues of the National Food Situation and the commodity situations.

Meat supplies per capita will be up seasonally in the next few months, and a little higher than last year. This will result primarily from the rise in pork slaughter as the bulk of last spring's large pig crop moves to market. Beef production in the next few months will be only slightly larger than a year ago, but more of the beef will be from fed cattle. Production of the intermediate and lower grades of beef will be a little smaller, mainly as a result of decreased cow slaughter. Veal production will be close to last year's for this period, while lamb and mutton supplies per person for the rest of the year will likely be close to last year's supplies.

Some decline in the average price of meat is expected this winter from present levels. Beef prices at retail are expected to be relatively steady, but slightly below last fall's prices, and the same prospect holds for lamb and veal prices. Retail prices of pork will continue to decline during this period of increased slaughter.

Meat production in 1962 probably will increase enough over this year's level to permit a small increase in per capita consumption. Nearly all of this increase will be in pork. Pork production will likely exceed year-earlier levels throughout the year. The larger fall pig crop now being farrowed assures larger supplies during the first half of 1962. Slaughter during the last half will depend upon next spring's farrowings, for which some increase seems likely. It appears that cattle producers will continue to increase inventories during 1962, so that the increase in beef slaughter will be only slightly more than the population growth. Production of veal next year is expected to be about the same or only slightly larger than this year's, yielding less per person. Smaller lamb and mutton supplies are likely in 1962 since part of this year's slaughter has come from ewe lambs originally intended for breeding purposes, which in turn has lowered the productive potential of our sheep flocks.

Little change is expected in 1962 average retail prices for meat over the 1961 level. The somewhat larger meat supply per capita probably will be largely offset by an increase in demand for meat stemming from the larger population and higher incomes.

Supplies of poultry in general will continue plentiful during the remainder of this year. There will be an abundance of broilers, although by year-end the weekly slaughter will be below the 1960 level. Broiler prices for this

period are expected to continue attractive to consumers at levels below those of 1960. The 1961 turkey crop is up 26 percent from 1960, and supplies to consumers will be more than ample at the lowest prices in recent history.

The per capita supply of broilers for the whole of 1962 may be a shade below those of 1961. However, broiler prices in the first few months of 1962 may average a little below the same period of 1961. Turkey supplies in the first half of 1962 are expected to remain at levels close to those of this year. Though the turkey crop next year may be down somewhat from 1961, the carryover of frozen stocks into 1962 will be well above a year earlier. A Marketing Agreement and Order program, scheduled for public hearings this November and December, may influence the size and marketing of the main-season 1962 turkey crop, and hence prices.

Monthly egg supplies will be above 1960 for the remainder of 1961 because of an expected increase in rate of lay per bird. Monthly egg production is likely to exceed year-before production well into the spring of 1962. Retail prices this winter, down from their seasonal peak in early fall, are expected to remain below last winter's, and the outlook is for first quarter retail prices to continue below the corresponding month's prices of a year earlier.

Supplies of dairy products will exceed domestic requirements again this winter. And, with a prospective further increase in milk production next year, supplies in 1962 will exceed requirements by a wider margin than in any year since 1954. Of interest to this group, though not a look into the future, is the fact that commercial demand for dairy products in 1961, especially butter and fluid whole milk, showed more weakness than in the preceding three years despite the general pickup in consumer incomes so far this year. The substantially larger donations from CCC stocks are what arrested the decline in consumption per capita of butter at about the 1960 level. Cheese was the only bright spot in the dairy consumption picture this year, showing another increase in its consumption rate.

Retail prices for dairy products this fall and winter are not expected to increase seasonally as much as last year. The continued plentiful supplies of dairy products next year will tend to keep retail prices through 1962 at about year-earlier levels. In addition, as in recent years, consumers will realize some decline in the average per unit cost of dairy products as they switch to (1) items with a lower fat content, such as from ice cream to ice milk, (2) store purchases, as opposed to home deliveries, and (3) purchases in larger containers, such as from quarts of milk to half gallons and gallons.

For the 1961-62 marketing season of edible fats and oils now under way, current indications are that total supplies, including oilseed, will set a new

record, about 15 percent larger than last year's supplies. The increase is due mainly to the record 1961 soybean crop, though supplies of lard and butter will also be slightly greater. The larger supplies of lard come from the increased output of hogs this year over 1960.

Retail prices of butter and lard probably will average about the same as last year during the remainder of 1961, but prices of a few vegetable oil food products likely will continue higher than in 1960 because of higher support prices for oil crops. Retail prices of most food fat products next year, however, will not differ much from this year's levels.

Civilian consumption per person of food fats for the rest of this year and through the 1961-62 marketing year probably will continue at about the annual rate of 46.0 pounds (fat content), which is what it has been for the last 4 or 5 years. These prospects indicate that quantities of edible fats, oils, and oilseeds available for export in 1961-62 will be 40 percent greater than last year.

Total supplies of fresh and processed fruits in prospect from now until mid-1962 are larger than at this time last year. In fact, supplies of most broad classes of fruit -- fresh deciduous fruits, fresh citrus, canned, frozen, and dried fruit -- are all somewhat larger now than a year earlier. To point out the situation of a few -- apple production was much larger this year than last, and the supply of fall and winter varieties of pears are expected to be up moderately over last year's. It's good news for those who like strawberries for the prospective acreage of strawberries for harvest in 1962 is about 4 percent larger than in 1961. Florida tangerines are the only citrus fruit of which supplies are expected to be substantially smaller than last year. Although supplies of California Navel and miscellaneous varieties of oranges are expected to be smaller than last year, this reduction will be more than offset by increases in other States, particularly Florida.

Supplies of total canned fruits for the 1961-62 marketing year are expected to be moderately larger than a year earlier because of increased carryover stocks held by canners and the probably record-size pack. Canned peaches, fruit cocktail, cherries, and purple plums are the items expected to be in greater supply next year. Fruit juice, especially frozen orange juice, is expected to be available in larger volume in the 1961-62 marketing season than in the last one.

Retail prices of some of the fresh fruits probably will not average as high this fall and winter as in these seasons of 1960-61, but prices of most processed items probably will be about the same.

Less fresh vegetables will be available for the rest of this fall compared to the same period last year. While substantially more fresh snap beans, sweet corn, and eggplant were available this fall, supplies of cabbage, cucumbers, and lettuce were down slightly, supplies of carrots and Brussels sprouts were down more, and supplies of cauliflower, celery, broccoli, and early fall tomatoes were down substantially. Dry onions are also in shorter supply than a year ago.

The supply of canned vegetables through the middle of next year is expected to be larger than a year ago, with a larger pack more than offsetting smaller stocks at the beginning of the pack year.

Retail prices of fresh vegetables for the rest of this year are expected to average a little higher than a year ago. And, because of increased costs of processing and distribution, consumers are likely to pay a little more for most processed items also.

Potato supplies for fall and winter markets are larger than last year, and well above normal market needs. Retail prices during the next 3 or 4 months probably will average below those of a year earlier. Barring unforeseen cuts in acreage or yield of potatoes this winter and next spring, enough potatoes should be produced to allow per capita consumption next year to be the same or slightly larger than it was this year.

Supplies of all food cereals will continue large, and the upward trend in retail prices of cereal food products should continue in the coming year because of prospective further increases in processing and distribution costs. In 1962 the per capita consumption of wheat in food products is expected to continue the downward trend and wind up slightly below this year's level of 163 pounds. Domestic disappearance of rice next year, however, probably will be about the same as last year's, and consumption of corn food products is also expected to stay about the same, near the level of the last 3 or 4 years.

I trust you all now know the outlook for food supplies and prices for the rest of this year and next year and you will spread these glad tidings of plenty of food at reasonable prices throughout the land.



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR TOBACCO IN 1962

Talk by Arthur G. Conover
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 11:00 A. M., Thursday, November 16, 1961

Total supplies of flue-cured, burley, and most other kinds of tobacco in 1961-62 will be fairly close to 1960-61 levels. This year, production of tobacco is about 3 percent above last year's harvest and the increases in the outturn of most kinds offset, to a considerable extent, the declines in carryovers.

Consumption of tobacco products in 1961, except chewing tobacco and snuff, is likely to top 1960. Further gains in consumption are expected in 1962 for cigarettes and probably cigars; no appreciable changes seem likely in smoking tobacco or snuff, but use of chewing tobacco will continue to trend downward. Exports of leaf tobacco account for 25 to 30 percent of the total annual disappearance of United States leaf. Our leaf exports in fiscal year 1960-61 were the largest in 5 years but for 1961-62, may show a small decline.

The 1962 marketing quota and acreage allotment for flue-cured tobacco will be announced by December 1, but the Secretary of Agriculture has until February 1 to announce the 1962 marketing quotas for burley and other kinds of tobacco. After the quota announcements, growers of flue-cured, burley, Virginia sun-cured and Pennsylvania cigar filler will vote in referendums on whether or not they approve quotas on their 1962, 1963 and 1964 crops. At least two-thirds of the growers voting must be in favor of quotas if they are to be placed in effect. In previous referendums for these kinds of tobacco, except the Pennsylvania filler type, growers have generally voted over 95 percent in favor of keeping quotas in effect. Growers of Pennsylvania filler tobacco have disapproved marketing quotas in all previous referendums. Marketing quotas will definitely be in effect for the 1962 crops of fire-cured, dark air-cured, Connecticut Valley binder, Ohio filler and Wisconsin binder and Maryland tobacco since growers voted 3-year approval in referendums held in February 1960 and 1961.

Government price support is mandatory for the kinds of tobacco produced under a marketing quota. The year-to-year change in the overall levels of support is determined on the basis of the relationship between a recent 3-year moving average of the parity index and the 1959 parity index. The 1962 crop price supports will be calculated by adjusting the 1959 support level to reflect the percentage change in the level of the parity index by comparing the 1959-61 average with 1959. The parity index is the index of prices paid by farmers, including interest, taxes and farm wage rates. Available data indicate that the 1962 overall support level for each eligible kind of tobacco will be up 1 percent from 1961. Price supports (loan rates) for individual grades of the various kinds and types of tobacco are announced shortly before their marketing seasons commence.

Position of Different Kinds of Tobacco

Flue-cured: The 1961-62 total supply of this leading cigarette and export tobacco is practically the same as for 1960-61. This year's average yield per acre for all producing areas combined is very close to the record high of last year and about 15 percent above the 1955-59 average. Domestic use of flue-cured in 1960-61 was over 3 percent above a year earlier--the second year in succession that domestic use rose appreciably after being almost at a standstill in the previous 5 years. Since cigarette output is expected to be larger in the year ahead, a further gain is expected in the domestic use of flue-cured. Exports of flue-cured in 1960-61 were more than one-eighth above the previous year. Barter sales contributed significantly to the increase. Exports of flue-cured during 1961-62 may not be as large as the 5-year high of 1960-61, but are expected to be fairly well maintained.

All except a small fraction of the 1961 flue-cured crop has been marketed. The season average price is estimated at near 64 cents a pound--about $3\frac{1}{2}$ cents higher than for the 1960 crop and a record high. The overall support level was 55.5 cents per pound--the same as in 1960. However, loan rates for individual grades were increased by an average of 2.4 cents per pound to provide effective support at the mandatory level. This increase takes into account the changes in grade composition of successive crops in recent years. About $5\frac{1}{2}$ percent of the 1961 marketings have been placed under Government loan, slightly above the proportions in 1960 and 1959. Stocks of pre-1961 flue-cured under Government loan have been reduced appreciably in the past year but holdings are still fairly substantial.

Burley: The 1961-62 total supply of burley is estimated at about 1 percent less than for 1960-61. The sizable drop in carryover is offset to a sizable extent by the increase in the size of this year's crop over last. Largely reflecting the increased allotment, the 1961 acreage is up $6\frac{1}{2}$ percent and yields per acre are expected to average a new record high--probably 3 percent above 1960. Domestic use of burley during 1960-61 rose about 2 percent--not as much as in the previous year but nevertheless in contrast with the static situation from 1954 until 1959. Since the major domestic outlet for burley is cigarettes, some further gain in domestic use appears likely in 1961-62. Exports (about 7 percent of total disappearance) were 14 percent above a year earlier and the most in 12 years. Burley tobacco auctions start November 27. The overall support level at 57.2 cents per pound is the same as in 1960, but loan rates for certain individual grades have been increased to allow for changes in the average composition of the crop in recent years. In each of the past 5 seasons, from 1 to $3\frac{1}{2}$ percent of the burley produced has been placed under Government loan. A fairly sizable quantity was moved out of burley loan stocks in recent months.

Maryland: The total supply of Maryland tobacco for the year ahead is estimated to be a little below those of the past 2 or 3 years. The carryover may be down slightly and the 1961 crop is indicated at below 1960. Domestic use rose in 1960-61 from the relatively low 1959-60 figure and exports topped those of a year earlier by a slight margin. Auctioning of the 1961 crop will take place next spring and summer. The overall

level of price support at 50.8 cents per pound is the same as last season. The auction market price average for mostly 1960 crop tobacco marketed last spring and summer was 63 cents--a little higher than in the previous 2 seasons.

Fire-cured: The 1961-62 total supply of fire-cured tobacco is near the record low of 1960-61. The increase in this year's crop over last largely offset the sizable drop in carryover. The principal domestic outlet for these types is snuff. Domestic use of fire-cured in 1960-61 increased slightly and exports rose moderately above the low level of the previous 2 years. Auctions for Virginia fire-cured will open in late November, and for Kentucky-Tennessee fire-cured, probably by early January. The overall support level for the 1961 crops is 38.8 cents per pound, the same as for the previous 4 crops. Increases will be made in loan rates by grades to reflect the composition of the crops in recent years. Government loan holdings of fire-cured tobacco declined in the past year, but are still sizable in relation to annual disappearance.

Dark Air-cured and Sun-cured: The 1961-62 total supply of Kentucky-Tennessee dark air-cured tobacco is indicated to be a little lower than for 1960-61 but for Virginia sun-cured, is fairly close to that for the past 2 or 3 years. Production this year was larger than in 1960 but carryover declined. The principal domestic use for these types is chewing tobacco. Domestic use of these types in 1960-61 increased a little over the preceding year but exports (including the allowance for Black Fat) were lower. Auctions for these tobaccos usually begin in late November. The overall support level at 34.5 cents per pound is the same as for the previous 4 crops. Increases will be made in loan rates by grades to reflect the composition of the crops in recent years. Government loan holdings of the dark air-cured types are still substantial in comparison with annual disappearance but no sun-cured tobacco is held under Government loan.

Cigar Filler: The 1961-62 total supply of Pennsylvania and Ohio filler tobacco is indicated to be larger than for 1960-61. Production in Pennsylvania, the principal producing area, is about the same as last year but the Ohio crop is probably the largest in 7 years. Indicated carryover of Pennsylvania filler is the largest for several years but, of Ohio filler is close to that of a year earlier. Carryover of Puerto Rican filler on October 1 is considerably below a year ago and the lowest for many years. The Government of Puerto Rico has increased the quota for the crop planted this fall and harvested early next year. Domestic use of Pennsylvania tobacco in 1960-61 is indicated to have been fairly near 1959-60 but domestic use of Puerto Rican tobacco rose sharply from the comparatively low level of the preceding year. Imports and stocks of foreign cigar tobaccos other than Cuban have shown a significant increase in the past year while Cuban tobacco entering consumption declined moderately. Stocks of Cuban tobacco held by manufacturers and dealers on October 1 were down 9 percent from a year earlier but well above any previous October 1.

Connecticut Valley Cigar Binder: The 1961-62 total supply of these types is 9 percent below 1960-61. Production and carryover were both down from last year and at record or near record lows. Domestic use in 1960-61 dropped further and was the smallest to date. Sheet binder is now used extensively throughout the cigar industry and has sharply reduced the requirements for these types. Exports in 1960-61 increased appreciably above the level of the previous 2 years due to a substantial shipment to Spain under the foreign currency program. The 1961 price support level at 39.6 cents per pound is the same as in the previous 2 years. Government loan stocks of these types are about $1\frac{1}{2}$ times the much-reduced annual disappearance of recent years.

Wisconsin Cigar Binder: The 1961-62 total supply of these types is a little larger than for 1960-61. Production is indicated to be smaller than last year in Northern Wisconsin but up a little in Southern Wisconsin. Carryover of both types is above a year ago. Domestic use in 1960-61 exceeded that of a year earlier but exports declined sharply. Scrap chewing tobacco is a major domestic outlet for the Wisconsin types. The 1961 crop support levels at 26.5 and 32.0 cents per pound for Southern Wisconsin and Northern Wisconsin types, respectively, are the same as for 1959 and 1960. Government loan stocks of Wisconsin tobacco are well above a year ago due to the relatively large receipts from the 1960 crops.

Shade-grown Wrapper: The 1961-62 total supply of shade-grown cigar wrapper is a little larger than for 1960-61--mainly due to the increased carryover of the Georgia-Florida type. Production in both the Connecticut Valley and Georgia-Florida was down from the record levels of 1960. Domestic use in 1960-61 exceeded that of any previous year, but exports declined a little further and were a third lower than the level of 2 and 3 years ago.

Tobacco Products

Cigarettes: The number of cigarette smokers (including those in the Armed Forces) is estimated at approximately 61 million-- $36\frac{1}{2}$ million men and $24\frac{1}{2}$ million women. These are smokers who smoke every day; probably an additional 5 million smoke cigarettes occasionally. In 1961, for the fifth consecutive year, cigarette output and consumption will reach new highs and a further significant gain is expected in 1962. This year's output of cigarettes is estimated at 530 billion--about 23 billion more than in 1960 and over 110 billion more than 10 years ago. U. S. smokers take about 95 percent of the output and most of the other 5 percent is exported. Cigarette consumption per capita (15 years and over) estimated at about 201 packs of 20 in 1961 is 3 percent above 1960 and a record high. The unstemmed tobacco equivalent of the cigarettes consumer per capita is estimated at 9.82 pounds, the highest since 1953.

Cigars (Including Cigarillos): An estimated 13 million men smoke cigars--about 4 million, regularly (every day) and around 9 million, occasionally (not every day). The 1961 consumption of cigars is estimated at about 7,170 million--120 million more than in 1960 and 1,380 million above 10 years ago. Cigar consumption is expected to continue to make gains in 1962. Total tobacco use in cigars has shown little change in the past decade despite the substantial increase in number of cigars

produced. This has been largely due to the increased output of cigarillos and intermediate size cigars and the substitution of processed sheet binders for natural leaf binders.

Smoking Tobacco: The 1961 output of smoking tobacco is estimated at near 75 million pounds--over 1 million larger than 1960 but 26 million smaller than 10 years ago. No appreciable change in smoking output seems likely in 1962. Imports of smoking tobacco--mostly from the Netherlands and United Kingdom--have been rising and may exceed 1 million pounds this year.

Chewing Tobacco and Snuff: The 1961 output of chewing tobacco and snuff are estimated at about 64 and 34 million pounds, respectively. Output of chewing tobacco is expected to be nearly a million pounds less than in 1960 and 22 million pounds less than 10 years ago. The decline in use of plug chewing products has been sharper than of scrap chewing products. Output of snuff may be over a half million pounds below 1960 and over 5 million less than 10 years ago. In 1962 output of chewing tobacco is likely to continue its downward trend while no marked change seems likely for snuff.

Exports

In fiscal year 1960-61, exports of U. S. tobacco at 504 million pounds (equivalent to 566 million pounds, farm-sales weight) were a tenth larger than a year earlier and at a 5-year high. The principal increases were to Britain (19 percent), Netherlands (34 percent), Sweden (87 percent) and Japan (35 percent). Tobacco exports to Germany were almost equal to the preceding year but there were sharp declines to Australia (22 percent) and Egypt (23 percent). Tobacco exports during the 1961-62 fiscal year seem likely to be a little lower than in 1960-61. Competition from expanded production abroad continues to increase and trade barriers in many forms continue to be a hampering influence on our tobacco exports. As part of a broad program to bolster her balance of payments position and strengthen the pound sterling, Britain increased the duty on imported tobacco by 10 percent in July. There is great concern as to how U. S. tobacco will be affected by the import duties and trade arrangements of the presently constituted European Common Market. This is even of more concern now that Britain and other countries taking substantial quantities of U. S. tobacco are applying for entry into the European Common Market. Numerous problems will have to be resolved, but probably of most concern to U. S. tobacco producers and exporters will be decisions regarding treatment to be accorded Britain's Commonwealth partners which include such important tobacco producers as Rhodesia-Nyasaland, Canada and India.





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UNITED STATES DEPARTMENT OF AGRICULTURE
ECONOMIC RESEARCH SERVICE

THE OUTLOOK FOR VEGETABLES AND POTATOES IN 1962

Talk by Will M. Simmons
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington D. C., 1:30 P. M., Wednesday, November 15, 1961

SUPPLY AND DEMAND PROSPECTS

Supplies of canned vegetables available in the current marketing season appear to be moderately larger than last season, and frozen vegetables are record large. Supplies of potatoes available this fall and winter are considerably larger than a year ago, and in excess of normal marketing requirements. Slightly less sweetpotatoes are available than last year. Dry edible beans are in moderately larger supply, but less dry peas are available than last season.

Overall economic activity has moved up substantially from the recession low of last spring, and continues to advance. Prospects for a high level of activity and high incomes in the months ahead assure continued strong consumer demand for vegetables. Foreign demand for, and U. S. exports of potatoes in the current season probably will be down from a year earlier, largely because of further Canadian restrictions on imports. Exports of vegetables, although small relative to domestic use, probably will be a little larger than last season. Foreign sales of fresh vegetables, most of which go to Canada, are expected to continue the uptrend of recent years. Also, with lessening of restrictions on trade by a number of European countries, prospects are good for some increase in exports of processed vegetables.

As usual, the quantity and quality of vegetables available will exert a heavy influence on farm prices and income, and on consumer prices. Export demand plays a much more important role in the marketing situation for dry edible beans and peas than it does with vegetables. Exports of dry beans in the current season probably will be substantially larger than the small volume of last season. But with limited supplies available, exports of dry peas are likely to be moderately smaller.

COMMERCIAL FRESH VEGETABLES

During the next 4 to 6 weeks, moderately less vegetables probably will be available for fresh market sale than a year earlier. In late fall, prices both to the grower and at the retail level are likely to average a little above those of last fall. Because of extreme uncertainty about the weather in the months ahead, and its effect on production, little can be said about winter vegetable prospects.

VEGETABLES FOR COMMERCIAL PROCESSING

Overall quantities of canned vegetables available for markets into mid-1962 are moderately larger than a year ago, and substantially above the recent 10-year average. Supplies of frozen vegetables are substantially above those of a year ago, and the largest of record. Carryover stocks of canned vegetables

in mid-1961 were moderately smaller than a year earlier. But the decrease in beginning stocks probably was more than offset by a materially larger canned pack. Both larger stocks at the beginning of the season and a considerably larger pack than last year contributed to the heavy supplies of frozen vegetables. Harvested acreage of vegetables for processing was substantially larger than in 1960, with only winter and spring spinach showing a decline. Acreages of other major processing crops were significantly larger than a year earlier.

According to reports in early October, estimated total production of 8 important vegetables for processing was a tenth larger than last year and a fifth above the 1950-59 average. Indicated packs together with carryover stocks point to slightly smaller supplies of canned green peas this season than last. But supplies of sweet corn appear to be substantially larger than those of a year ago, and snap beans and sauerkraut moderately larger. Some tomato items are also in significantly larger supply. However, combined supplies of tomatoes, tomato juice, and tomato products probably are the same to only slightly larger than last season. Supplies of frozen green peas, although about a tenth larger than last year, are still at moderate levels. But all other major frozen items are in heavy supply.

During the early part of the season, demand for most processed items, except canned corn, was routine, with distributors generally waiting for the market to adjust to new crop packs. Most vegetables probably have adjusted to the new pack basis, with prices of many canned items averaging the same to moderately higher than a year ago. But sauerkraut and corn have been substantially lower, and snap beans moderately lower. Because of heavier supplies, a number of frozen items have also averaged lower. Cost of raw product, particularly tomatoes, was higher than in 1960, and costs of processing and distributing continue to increase, tending to exert an upward pressure on prices. However, supplies of processed vegetables are heavy. F.o.b. prices of canned items for the remainder of the season probably will average a little above the moderate levels of last season, with frozen items the same to slightly lower. Consumers again will find shelf prices of processed vegetables attractive -- though likely a little above those of a year earlier. The consumption rate for processed vegetables is expected to be slightly above the high level of last season.

There is as yet no indication of the 1962 acreage of vegetables for commercial processing. Assuming yields near the average of recent years, however, it appears that a moderate cut in acreage will be needed to avoid the likelihood of burdensome supplies in the 1962-63 marketing season.

DRY BEANS AND PEAS

Moderately more dry edible beans are available than a year ago. Both larger carryover stocks at the beginning of the season and a larger crop contributed to the increase. Production by class of beans is not yet available. However, production by areas indicates that supplies of both white and colored classes are larger than a year ago. Among the more important white classes, supplies of great northern and small whites probably are below those of last season. But production in Michigan, mostly pea beans, was record large and supply of this important class probably is up from the heavy supply of last season. Among colored classes, small red beans are in light supply, being down substantially from last year. Growers apparently cut acreage sharply because of loss of the large Cuban market. Less red kidney beans also are available. But supplies of pinto beans, most important of the colored types, is materially larger than last year. However, growers and handlers report serious quality problems. Wet weather in Kansas, Colorado, and Wyoming, and frosts in Colorado resulted in only minor loss of pinto production, but caused considerable quality damage.

Domestic use of dry beans in the current season probably will be about as large as the 15.5 to 16.0 million bags used last season. Such a movement assumes a continuation of the domestic donation program, which last season took well over a million bags of beans. With continued loss of the Cuban market, exports of beans for dollars probably will remain relatively low -- although perhaps larger than the light volume of last season. However, prospects point to much larger shipments of dry beans under P. L. 480 programs. The national average support rate for 1961-crop dry beans is \$6.32 per hundredweight, about a dollar more than that for the 1960-crop. Actual prices received by growers compared with last season will vary depending on the supply and demand situation for the various classes. However, with substantially higher support levels, prices as a whole are likely to average a little above those of last season.

Dry pea producers planted a tenth more acreage of dry peas this year than last. However, yields were a little lower than in 1960 and production was up only moderately. Because of substantially smaller carryover stocks at the beginning of the season, total supplies of dry peas are moderately smaller than last year.

Domestic use of dry peas this season may not exceed the relatively low level of 2 million bags used last season. Even so, quantities of peas available for export promise to be moderately smaller than last season. Reports indicate serious weather damage and small crops of dry peas in both the Netherlands and Morocco -- our major export competitors in Europe. Partly offsetting, however, are reported heavy stocks of canned peas in the United Kingdom, our largest export market for peas. Nevertheless, with smaller supplies available in the United States and in Europe, prices received by U. S. producers probably will average above those of last season.

POTATOES AND SWEETPOTATOES

The potato picture all year long has been one of heavy supply, and relatively low prices to growers. We started the year in January with stocks of 105 million hundredweight, 6 percent more than a year earlier. The production of winter and early spring potatoes was up substantially, and late total spring output was slightly above the large crop of 1960. Production of late spring potatoes in the East was materially smaller than last year. But heavy supplies from the West, especially California, kept prices under pressure.

Indications are that markets will remain under heavy pressure into next spring. Combined production of late summer and fall potatoes was 228 million hundredweight, more than 18 million hundredweight above 1960. The fall crop alone hit 194 million hundredweight, about a tenth more than a year ago. The larger overall fall crop resulted from an 8 percent increase in acreage and slightly higher yields.

The pattern of 1961-crop production was also significantly different from last year, with the West showing a big increase. Production in the 9 Eastern States, at 64.1 million hundredweight, was up only slightly. A substantially larger output in Upstate New York and a slightly larger crop in Maine accounted for most of the increase. The increases both in Maine and for the East as a whole were due to higher yields, as acreage was down slightly. Acreage in the 9 Central States was materially larger than in 1960, and but for a lower average yield output would have been very high. Except for Michigan, however, the larger producing States had lower average yields than in 1960, and total production of 44.4 million hundredweight was slightly smaller than last year.

Among the more important States, production in Michigan was up substantially and output in Minnesota and Wisconsin was about the same as a year ago. But the crop in North Dakota was down substantially. As indicated earlier, the big increase came in the West. Acreage in the 9 Western States was up 15 percent over 1960, and yields were up a tenth. Indicated production of 85.2 million hundredweight was a fourth larger than last year. Biggest increase was in Idaho which produces almost two-thirds of the Western crop. But all other States in the area also reported larger crops, with material increases in Colorado, Oregon, Washington, and California.

As in the last several years, about three-fourths of the fall crop is in areas covered by marketing orders. Also, the Department, at industry request, is operating a potato diversion program to assist farmers in marketing the large crop.

Despite industry efforts to move the big crop as rapidly as feasible, large supplies are expected to continue to press on markets into spring. Farmers can best contribute to clearing up the heavy supplies and maintaining the best overall marketing conditions by full use of the diversion program, and by consistent and orderly market shipments throughout the season.

Both acreage and indicated yield of sweetpotatoes are down fractionally from a year ago. Total production, at 15 million hundredweight, was slightly smaller than a year ago and substantially below the recent 10-year average. The size and geographic distribution of the crop indicate that supplies available for winter and spring markets in most parts of the country are likely to be moderately smaller than those of a year earlier. Combined production in New Jersey, Virginia, North Carolina, Louisiana, and Texas, which furnish the bulk of winter and spring supplies to markets in the Eastern and Central States, was down 7 percent from last year. However, production in California, most of which is marketed in the West, is substantially larger.

During the early part of the season, prices to growers averaged materially above those of a year ago. Prices are expected to rise seasonally into winter and spring, and are likely to remain somewhat above those of last season.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

OUTLOOK FOR WHEAT IN 1962

Talk by Robert E. Post
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 10:50 A. M., Thursday, November 16, 1961

The most important features of the wheat situation and outlook are: (1) A prospective slight reduction in carryover next July 1 -- the first drop since 1958; (2) a prospective sharp reduction in carryover by July 1, 1963; (3) exports reaching an all-time record in 1961-62; (4) wheat prices high this year relative to the support rate and (5) the 1962 Wheat Stabilization Program.

The Wheat Situation for 1961-62

The total United States wheat supply for the marketing year which began July 1, 1961, is down slightly from the all-time record a year earlier. The decline was due to a decrease in the 1961 crop, reflecting drought in the spring wheat area, which more than offset the increase in the July 1, 1961 carryover. Even though the estimated 1961-62 supply of 2,630 million bushels is below last year's supply, it represents about two years' domestic use and exports. The table on page 4 shows the items which make up the 1961-62 supply compared with earlier years. Distribution items are also shown.

Domestic disappearance in 1961-62 is now estimated at 590 million bushels and exports are expected to total a record 675 million bushels. Some of the increase in exports over the 662 million of 1960-61 will be to European markets, where requirements have increased due to smaller 1961 crops. On the basis of these estimates, about 1,365 million bushels would be carried over on July 1, 1962, a reduction of about 45 million bushels from a year earlier.

Acreage allotments and marketing quotas have been in effect for wheat each year since 1954. Since then, seeded acreage has held at about the same level, except in 1957 when the Acreage Reserve of the Soil Bank Program reduced the acreage still further.

Yields per acre rose sharply from 1956, reaching an all-time high in 1958. Yields have continued at high levels and have resulted in large crops. While the indicated 1961 yield per seeded acre of winter wheat was 11 percent above the 1956-60 average, the yield of spring wheat other than durum was 33 percent below average and that of durum 41 percent below average, reflecting drought conditions in the spring wheat area.

Production in 1961 was estimated as of October 1 at 1,211 million bushels. While 10 percent below a year earlier because of the small spring production, the indicated all-wheat crop is still 3 percent above the 1956-60 average and the sixth largest of record.

Domestic wheat prices continue above world prices as a result of U.S. price-support programs. Because our prices are high relative to competitive world prices, all U.S. wheat exports require export payments. In the case of wheat grain, export payments are paid in grain; for flour, export payments are in cash.

Shipments under the various export programs are financed by the Government in addition to the subsidy payments. These programs, which include sales for foreign currencies, barter and various donation programs, have materially increased the volume of our exports, accounting for about 70 percent of the total in 1960-61. This was a little less than the 74 percent in the previous year, but above the average of 65 percent in the 5 years ending with 1958-59.

U.S. exports to North Africa and Western Europe, with the exception of Italy, are expected to show an increase in 1961-62. Higher import requirements in these areas are indicated because of smaller 1961 crops. A continuing high demand is expected for U.S. wheat in Asia under the Food for Peace Program.

Analysis of Wheat by Classes 1/

Of the 45 million-bushel reduction in carryover expected on July 1, 1962, prospective reductions in hard red spring, durum and white wheat may more than offset likely increases in stocks of hard red winter and soft red winter wheat.

The hard red spring wheat carryover on July 1, 1962, may be down about 65 million bushels and durum down about 10 million, both reductions due to short 1961 crops of these classes. A total of 12 million bushels of durum may be exported in 1961-62. With the durum supply totaling only 31 million bushels (July 1, 1961 stocks estimated at 12 million bushels and 1961 production at 19 million) and assuming a minimum carryover of 2 million bushels at the end of the year, only about 17 million bushels would remain for domestic disappearance to take care of food, seed, and feed. This disappearance compares with the 1956-60 average of 26 million bushels. A further reduction in stocks of white wheat is anticipated as a result of the small 1961 crop and a continued high level of exports.

Stocks of hard red winter wheat are not expected to increase very much next July. This would be the first year since 1958 that stocks of this class of wheat have not increased significantly. Stocks of soft red winter wheat, may be increased about 18 million bushels. The larger stocks will supplement supplies in 1962-63 by offsetting the substantial reduction expected in the 1962 crop as a result of participation in the wheat stabilization program.

1/ There are 4 great wheat producing areas in the United States. Hard red winter wheat is grown principally in the Southern Great Plains and hard red spring chiefly in the Northern Great Plains. These hard wheats are especially suited to the making of bread flours. Soft red winter wheat is produced in the eastern half of the United States and white wheat predominates in the Pacific Northwest, with important districts also in Michigan, New York and California. Flours from soft red and soft white wheats are used in the making of pastry, crackers, biscuits and cakes. Durum wheat is grown principally in North Dakota and adjoining States. This type of wheat is used in the manufacture of macaroni, spaghetti, and similar products.

Prospective carryover stocks by classes July 1, 1962, in million bushels (July 1, 1961 in parentheses) are as follows: Hard red winter, 1,129 (1,109); soft red winter, 30 (12); hard red spring 174 (240); durum, 2 (12) and white, 30 (38); total, 1,365 (1,411).

Hard red winter wheat supplies present our greatest surplus problem. This is not because we do not use and export large quantities; rather it is because our production is so very large. During the past 5 years, production of hard red winter wheat averaged 56 percent of total production. Of all the wheat consumed as food in the United States, 40 percent is hard red winter. Over 60 percent of all the wheat we export is hard red winter.

While the general level of wheat prices is related to the support level, the price of each class reflects its own supply and demand situation. The price of soft red winter at St. Louis, reflecting local mill and export demand, usually averages about the same or above the price of hard red winter at Kansas City. However, over much of Illinois the unusual export demand for hard red winter wheat has strengthened hard wheat prices for export movement by barge, raising prices of the hard wheat above that of the soft red wheat.

The price of No. 1 Dark Northern Spring wheat at Minneapolis in the past 5 years averaged 14 cents above the price of No. 2 Hard Red Winter at Kansas City. The price of white wheat at Portland has been high relative to other markets as a result of the strong export market.

The Wheat Supply Outlook for 1962-63

The winter wheat sign-up for the 1962 wheat program is underway and continues through the end of November in areas where all or most of the wheat grown is winter wheat. Farmers who produce spring wheat in these areas, and wish to sign up will also have to do so this fall. In the spring wheat areas, the sign-up will take place in the spring. As a result of the 1962 wheat program, it is anticipated that wheat production will be sharply reduced.

The cut in wheat production under the 1962 wheat program will depend on the degree of voluntary participation, and on the extent to which acreage cuts might be offset by increased yields. Assuming that total harvested acreage will be reduced around 19 percent (based on analysis by areas) from 51.5 million acres in 1961 to 41.7 million and that yields will be increased around 10 percent, the 1962 crop would total about 1,075 million bushels. A crop of this size would be 275 million bushels below the crop produced in 1960 and 136 million below this year's crop, which was reduced by drought in the spring wheat areas.

A crop of 1,075 million bushels together with the expected carryover on July 1, 1962, of about 1,365 million and imports of about 8 million would give a total supply of 2,448 million bushels for 1962-63. Exports are currently projected at 625 million and domestic disappearance may total about 585 million. On the basis of these estimates, the carryover on July 1, 1963 would be reduced about 130 million bushels from the carryover expected next year.

Market prices of wheat are near their high for the marketing year to date and generally above the effective support level. Strong export demand and with-holding in anticipation of higher prices, because of the increased price support rate for 1962-crop wheat, have been major factors affecting wheat prices. In addition, hard red spring and durum wheat prices were strengthened due to drought-reduced crops. The substantial increase in prices of most classes of wheat from their seasonal lows may prevent any large rises from taking place during the remainder of the year.

Considering the favorable early season prices and the strength of the factors dominating the market, prices to farmers may average above the announced support for the first time since 1950- 51, when prices averaged one cent above the support. The support price for 1961-crop wheat is \$1.79 per bushel. In 1960-61, prices to growers averaged \$1.75, 3 cents below the accounted support of \$1.78 per bushel.

The minimum national average support price applicable to the 1962 crop is \$2.00 per bu. This support price is not subject to any increase as a result of a higher parity price at the beginning of the marketing year as has been the case in previous wheat programs.

Wheat: Supply and distribution, United States, 1955-61

	Year beginning July						
	1955	1956	1957	1958	1959	1960 1/	1961 2/
	Mil.bu.	Mil.bu.	Mil.bu.	Mil.bu.	Mil.bu.	Mil.bu.	Mil.bu.
Supply							
Carryover on							
July 1	1,036.2	1,033.4	908.8	881.0	1,295.1	1,313.5	1,411
Production	937.1	1,005.4	955.7	1,457.4	1,121.1	1,350.3	1,211
Imports 3/	9.9	7.8	10.9	7.8	7.4	8.2	8
Total	1,983.2	2,046.6	1,875.4	2,346.2	2,423.6	2,672.0	2,630
Domestic disap-							
pearance							
Food 4/	481.6	482.5	486.1	497.1	496.7	496.3	500
Seed	67.7	57.7	63.2	65.1	63.7	64.4	49
Industry	.7	.5	.3	.1	.1	.1	---
Feed 5/	535.5	47.6	41.9	45.5	39.7	38.2	41
Total	603.5	588.3	591.5	607.8	600.2	599.0	590
Exports 6/	346.3	549.5	402.9	443.3	509.9	661.9	675
Total disap-							
pearance	949.8	1,137.8	994.4	1,051.1	1,110.1	1,260.9	1,265
Stocks on June 30:	1,033.4	908.8	881.0	1,295.1	1,313.5	1,411.1	1,365

1/ Preliminary. 2/ Supply items are preliminary. Distribution items are partly estimated. 3/ Imports include full-duty wheat, wheat imported for feed, and dutiable flour and other wheat products in terms of wheat. They exclude wheat imported for milling in bond and export as flour, also flour free for export. 4/ Includes shipments to United States Territories and wheat for military food use at home and abroad. 5/ This is the residual figure, after all other disappearance is accounted for. 6/ Exports are of wheat, including flour wholly from U. S. wheat and other wheat products in terms of wheat. They include exports for relief or charity by individuals and private agencies. Shipments are included in domestic disappearance for food.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE LEGUME AND GRASS SEED SITUATION IN 1961-62

Talk by William R. Askew
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference, Washington, D. C.

The 1961 production and carryover of the 24 leading legume and grass seeds is estimated at 729 million pounds, 4 percent below last year's 776 million and 25 percent below the 1950-59 average of 977 million. (see accompanying table). These estimates exclude lespedeza and ryegrasses for which 1961 data are not yet available.

Alfalfa and red clover are the leading legumes and represent three-fourths of the Nation's tame hay acreage. Both registered declines in seed production in 1961 compared to 1960 and the average. The carryover of alfalfa also was down from a year earlier while that of red clover was a little larger. As a result, the current initial supply (production plus carryover) of these two kinds totaling 262 million pounds, is 12 percent below last year's comparable total and 18 percent below average.

Imports of alfalfa and red clover seed usually represent about 2 percent of the total supply of these kinds. Exports of alfalfa averaged 9.6 million pounds compared with imports of 3.5 million. Much of the alfalfa seed exported in recent years has been produced under contract with foreign countries and is adapted to special requirements of the importing country. Statistics on exports of red clover seed are not available.

While the initial supplies of alfalfa and red clover seed are 10 percent and 15 percent respectively lower than a year ago, they appear to be adequate to meet normal domestic requirements and still provide a reasonable carryover. Prices received by growers for alfalfa seed in 1960 were below the previous year, while prices of red clover were the lowest in 18 years. Prices of these seeds advanced sharply in October 1961, from the level of the previous year. In view of the smaller supply and the prospective continuation of recent levels of disappearance, prices may show larger than seasonal gains the remainder of 1961 and the first half of 1962.

Supplies of alsike clover and sweetclover seed are low. The 1961 production of each was the smallest of record. Imports from Canada during the three-month period--July-September--of 1961 were significantly large, 1,289,800 pounds of alsike, and 1,020,100 pounds of sweetclover. Additional imports will likely be needed to bring supply into equitable balance with prospective demand. Supplies of white (Dutch) clover and Ladino clover for 1961-62 seedings are plentiful.

Comparison of this year's supplies of grass seeds with last year's reflects adequate to plentiful positions for timothy, redtop, Merion Kentucky

Prepared in collaboration with T. J. Kuzelka, Agricultural Estimates Division, SRS.

bluegrass, Chewings fescue, bentgrass, tall fescue, and Sudangrass. Those in moderately short supply relative to prospective domestic demand include smooth brome grass, crested wheatgrass, red fescue, common Kentucky bluegrass, and orchardgrass. However, imports of common Kentucky bluegrass, orchardgrass, and red fescue usually supplement the domestic supply adequately to meet demand, and are expected to do so again in 1961-62.

This year's initial supply of crimson clover, lupine, hairy vetch and common vetch seed is below that of 1960, but for purple vetch and Austrian Winter peas it is much larger. However, in relation to the 1950-59 average, the indicated supplies for this year are smaller for each kind. In the Southeast--the major area of winter cover crop usage--cover crops are being displaced by fall sown grains. Carryover stocks of each of the cover crops have been reduced substantially in recent years. Production of lupine in 1961 was the smallest in 18 years and its use as a cover crop is declining. Production of hairy vetch and common vetch seed is also substantially smaller than either last year or average. Purple vetch is the only winter cover crop for which the supply in the fall of 1960 was close to the 10-year average. The 1961 supply of Austrian Winter peas was one-third larger than that of 1960 due to the increased production. This kind accounts for over half of the total seed supply of the six winter cover crops.

Prices received by growers on October 15, 1961, were higher than a year earlier for 4 of the 5 seeds for which price data were available. (see table). All advances were significantly large--sweetclover was up 81 percent from October 1960; timothy and red clover were up 44 percent and 40 percent respectively; and alfalfa advanced 26 percent. However, alsike clover seed prices were 5 percent lower in mid-October this year.

Prices paid by farmers for seeds purchased in mid-September 1961 showed mixed changes (see table). Certified alfalfa and clovers, except Ladino and white clover, were lower this fall compared with last. Also lower in this same comparison were timothy, redtop, common Kentucky bluegrass, smooth brome grass, crested wheatgrass, tall fescue, perennial ryegrass, Austrian Winter peas, and sweet lupine. In contrast, higher prices prevailed for all other winter cover crops, and for common alfalfa, white clover, Ladino clover, orchardgrass and common ryegrass.

KIND OF SEED	PRODUCTION		TOTAL CARRYOVER		INITIAL SUPPLY (Production plus carryover)		RELATION OF 1961 INITIAL SUPPLY TO :		IMPORTS 1/		TOTAL SUPPLY (Prod. + carry- over + imports)		EXPORTS 1/				
	Average	1961	Average	1961	Average	1961	Average	1961	Average	1961	Average	1961	Average	1961			
	1,000 pounds		1,000 pounds		1,000 pounds		Percent		1,000 pounds		1,000 pounds		1,000 pounds				
Alfalfa	152,441	136,458	122,275	51,569	41,887	38,068	204,010	178,345	160,343	79	90	3,543	1,757	207,553	180,102	9,607	9,280
Red Clover	87,217	88,932	68,887	29,001	30,780	33,430	116,218	119,712	102,317	88	85	3,368	4,967	119,586	124,679	2,843	*
Alsike Clover	10,903	4,732	2,836	5,393	6,288	6,683	16,296	11,020	9,519	58	86	2,020	3,220	18,316	14,240	772	110
Sweetclover	42,594	27,694	16,662	18,194	18,881	9,443	60,788	46,575	26,105	43	56	13,048	10,393	73,836	56,968	3/	*
White Clover	4,472	4,008	5,399	1,717	1,400	1,131	6,189	5,408	6,530	106	121	984	66	7,173	5,474	3/	*
Ladino Clover	6,545	4,455	4,330	8,916	1,894	1,497	15,461	6,349	5,827	38	92	234	0	15,695	6,349	1,348	1,955
Total 6 Legumes	304,172	266,279	220,389	114,790	101,130	90,252	418,962	367,409	310,641	74	85	23,197	20,403	442,159	387,812	3/	3/
Timothy	39,870	45,845	27,859	11,353	13,677	26,421	51,222	59,522	54,280	106	91	2,844	994	54,066	60,516	2,674	3,736
Orchardgrass	12,216	13,110	13,175	4,156	3,871	3,204	16,372	16,981	16,379	104	96	4,771	4,965	21,142	21,946	248	199
Redtop	5,123	5,340	4,720	2,168	2,187	3,024	7,291	7,527	7,744	106	103	7,292	0	7,292	7,292	784	1,572
Kentucky Bluegrass	18,223	29,400	5,900	7,748	9,030	18,755	25,968	38,430	24,655	95	64	1,456	4,224	27,427	42,654	1,288	1,576
Merion Ky. Bluegrass	2/ 1,433	3,064	2,959	2/ 400	1,134	1,609	21,682	4,198	4,568	272	109	0	0	2/ 1,682	4,198	3/	***
Cheviings Fescue	5,942	11,000	8,400	2,363	3,979	7,896	8,305	14,979	16,296	196	109	367	5	12,760	26,923	3/	***
Red Fescue	2,824	5,038	4,039	2,725	6,785	11,445	5,549	11,823	15,484	279	131	7,211	15,100	8,672	14,984	3/	***
Tall Fescue	30,174	37,580	35,650	11,926	2,184	9,946	42,101	39,764	45,596	108	115	2/ 35	0	42,108	39,764	2/ 2,448	3,141
Bentgrass	4,459	5,092	6,238	1,963	2,225	1,538	6,422	7,317	7,776	121	106	75	3	6,497	7,320	3/	***
Smooth Bromegrass	13,511	12,765	14,700	8,760	5,415	7,525	22,271	18,180	22,225	100-	122	6,498	5,414	28,770	23,594	3/	***
Crested Wheatgrass	3,360	2,572	1,830	2,032	1,971	3,379	5,412	4,543	5,209	96	115	273	1,239	5,685	5,782	3/	***
Sudangrass	54,038	47,526	60,884	18,105	14,542	10,766	72,144	62,068	71,650	99	115	75	0	72,219	62,068	3/	***
Total 12 Grasses	191,173	218,332	186,354	73,719	67,000	105,508	264,739	285,332	291,862	110	102	23,606	31,914	288,320	317,276	3/	3/
Austrian Winter Peas	62,236	44,430	62,570	56,459	4,127	2,060	118,695	48,557	64,630	54	133	0	0	118,695	48,557	3/	3/
Crimson Clover	18,173	16,458	13,635	2,784	2,313	1,986	20,958	18,771	15,621	75	83	5,219	0	26,177	18,771	3/	*
Lupine	38,424	8,015	5,430	32,687	2,478	737	71,111	10,493	6,167	9	59	687	44	71,798	10,537	3/	3/
Hairy Vetch	35,518	28,955	18,174	15,689	4,505	6,224	51,207	33,460	24,398	48	73	361	26	51,569	33,486	3/	3/
Common Vetch	12,698	5,620	4,930	8,591	943	654	21,290	6,563	5,584	26	85	513	1	21,803	6,564	3/	3/
Purple Vetch	8,015	3,900	8,990	1,946	1,104	930	9,961	5,004	9,920	100-	198	0	0	9,961	5,004	3/	3/
Total 6 Winter Crops	175,064	107,378	113,729	118,156	15,470	12,591	293,222	122,848	126,320	43	103	6,780	71	300,003	122,919	3/	3/
Grand Total 24 Crops	670,409	591,989	520,472	306,665	183,600	208,351	976,923	775,589	728,823	75	94	53,583	52,418	1,030,482	828,007	3/	3/

1/ Year beginning July 1.
2/ Short-time average.
3/ Data not available.

* Included in "Other Clovers." Total of 6,515,000 pounds.

** Included in "Other Grasses." Total of 27,134,000 pounds.

*** Included in "Other Fescue." Total of 7,900,000 pounds.

Prepared in Agricultural Estimates Division, SRS, USDA - October 1961

Price received by growers for seeds: Season average, dollars per 100 pounds clean seed, 1951-61

Kind of seed	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961
	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.	Dol. per cwt.
Alfalfa	45.40	32.50	22.90	33.50	20.60	30.90	24.70	27.30	29.50	27.30	33.70
Red Clover	31.70	31.00	25.50	45.30	29.80	33.80	26.70	31.70	26.10	21.10	28.50
Alsike Clover	35.60	26.90	16.60	27.70	21.00	32.70	17.90	19.00	18.60	16.20	15.70
Sweetclover	9.81	9.32	9.19	11.00	9.52	9.38	7.64	8.32	8.72	6.32	10.80
White Clover	54.90	48.30	45.30	66.50	58.40	65.10	33.20	53.60	53.00	66.00	---
Ladino Clover	108.00	91.50	33.20	51.80	53.30	35.60	29.10	49.30	55.10	60.10	---
Lespedeza	12.00	18.10	18.40	19.20	7.49	10.10	7.87	7.79	9.64	13.10	---
Timothy	7.33	13.60	12.40	17.10	8.48	15.50	8.08	13.20	10.70	5.71	7.35
Orchardgrass	15.50	16.50	13.00	25.90	15.50	21.40	10.90	15.60	22.60	15.60	---
Redtop	23.30	37.70	51.30	56.20	36.10	42.90	19.40	22.50	28.20	15.60	---
Ky. Bluegrass 2/	9.31	12.50	15.50	14.10	9.62	12.10	6.95	6.53	8.52	5.69	---
Smooth Bromegrass	13.80	22.00	11.90	11.00	16.40	29.80	7.97	8.86	15.20	9.45	---
Crested Wheatgrass	26.00	33.80	15.30	18.30	21.50	36.30	11.10	12.40	22.80	16.00	---
Sudangrass	7.05	10.50	5.21	9.01	4.57	6.41	3.07	4.74	4.89	5.31	---
Chewings Fescue	66.50	47.00	43.00	25.00	19.00	32.00	29.50	31.00	27.50	16.00	---
Red Fescue	69.30	48.30	41.30	25.50	22.40	42.30	36.30	31.80	26.10	17.10	---
Tall Fescue	50.90	25.40	12.50	15.40	9.15	13.10	10.00	11.30	16.60	11.30	---
Bentgrass	81.50	52.80	61.10	54.90	46.10	43.60	24.20	22.70	22.20	28.10	---
Hairy Vetch	14.90	13.50	11.50	11.10	13.20	13.90	9.80	10.30	10.10	10.00	---
Common Vetch	6.45	5.51	4.17	4.81	6.00	8.55	5.03	5.73	5.26	5.25	---
Purple Vetch	8.00	6.20	5.20	4.50	9.00	6.50	5.60	7.60	6.60	8.00	---
Common Ryegrass	9.00	6.70	8.90	7.00	5.60	4.75	4.40	7.80	5.50	3.70	---
Perennial Ryegrass	13.60	9.40	11.60	13.00	9.40	7.00	5.10	9.10	9.80	6.40	---
Austrian Winter Peas	3.61	3.10	2.65	2.61	3.32	3.20	2.26	3.45	3.39	3.23	---
Lupine	4.54	3.85	3.45	4.96	4.55	5.04	4.29	4.53	4.25	3.96	---
Crimson Clover	27.80	21.10	15.70	19.00	23.60	26.40	18.90	21.20	24.10	16.70	---

1/ Preliminary. 2/ Kentucky Bluegrass prices are for cured seed.

Agricultural Estimates Division, SRS, USDA, October 1961

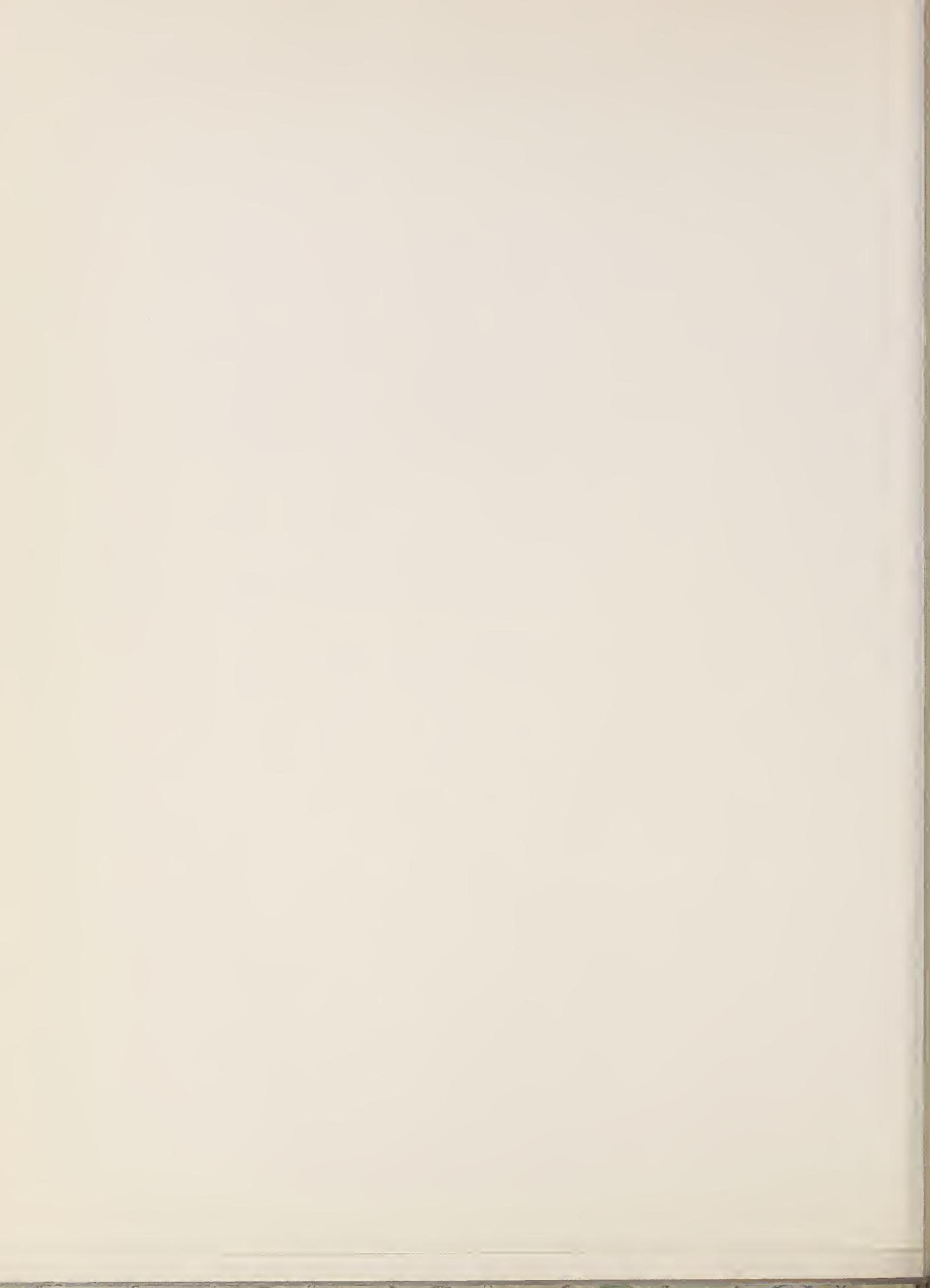
Prices paid by farmers for seeds: September 15, and spring season
average (4-month average Feb. 15-May 15), dollars
per 100 pounds clean seed, 1959-61

Kind of seed	: Spring : : 1959 :	: Sept. : : 1959 :	: Spring : : 1960 :	: Sept. : : 1960 :	: Spring : : 1961 :	: Sept. : : 1961 :
	: : Dol. : : per : : cwt. :	: : Dol. : : per : : cwt. :	: : Dol. : : per : : cwt. :	: : Dol. : : per : : cwt. :	: : Dol. : : per : : cwt. :	: : Dol. : : per : : cwt. :
Alfalfa, Common	: 36.60	: 35.20	: 38.80	: 38.60	: 37.30	: 39.00
Alfalfa, Certified	:	:	:	:	:	:
Varieties	: 45.10	: 43.80	: 50.00	: 48.40	: 47.00	: 47.60
Clover, Red	: 47.10	: 45.00	: 42.30	: 41.40	: 36.70	: 38.00
Clover, Alsike	: 35.20	: 35.40	: 34.40	: 34.60	: 32.60	: 33.10
Clover, Sweet	: 17.40	: ---	: 17.00	: ---	: 14.80	: ---
Clover, White	: 85.20	: 86.50	: 85.90	: 93.60	: 99.00	: 95.00
Clover, Ladino	: 82.70	: 79.60	: 89.90	: 88.90	: 96.10	: 92.80
Clover, Crimson	:	:	:	:	:	:
Common	: ---	: 30.90	: ---	: 24.20	: ---	: 26.00
Clover, Crimson	:	:	:	:	:	:
Reseeding	: ---	: 34.90	: ---	: 26.90	: ---	: 29.20
Lespedeza, Korean	: 12.10	: ---	: 14.10	: ---	: 21.60	: ---
Timothy	: 27.50	: 23.30	: 21.90	: 18.00	: 15.30	: 15.50
Redtop	: 52.40	: 55.70	: 54.30	: 49.50	: 44.80	: 44.60
Bluegrass,	:	:	:	:	:	:
Kentucky	: 60.30	: 70.40	: 73.10	: 63.70	: 58.70	: 60.60
Orchardgrass	: 33.20	: 38.10	: 38.60	: 34.30	: 34.70	: 36.10
Sudangrass	: 10.40	: ---	: 11.20	: ---	: 12.60	: ---
Bromegrass, Smooth	: 21.30	: 29.90	: 32.90	: 27.80	: 22.60	: 23.60
Wheatgrass,	:	:	:	:	:	:
Crested	: 28.20	: 39.70	: 40.70	: 38.40	: 33.00	: 36.10
Fescue, Tall	: 21.80	: 26.60	: 32.90	: 24.10	: 22.70	: 21.80
Ryegrass, Common	: 16.80	: 12.00	: 14.30	: 9.24	: 12.90	: 10.60
Ryegrass,	:	:	:	:	:	:
Perennial	: ---	: 22.30	: ---	: 19.30	: ---	: 18.30
Peas, Austrian	:	:	:	:	:	:
Winter	: ---	: 7.52	: ---	: 7.50	: ---	: 7.39
Peas, Wild Winter	: ---	: 11.60	: ---	: 11.30	: ---	: 12.30
Vetch, Hairy	: ---	: 17.00	: ---	: 16.20	: ---	: 18.20
Vetch, Common	: ---	: 10.30	: ---	: 10.40	: ---	: 10.80
Lupine, Blue	: ---	: 6.49	: ---	: 5.83	: ---	: 6.00
Lupine, Sweet	: ---	: 7.65	: ---	: 8.58	: ---	: 8.53

Agricultural Estimates Division, SRS, USDA

October 1961





UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

CHANGES IN FARMS AND FARMING

Talk by H. L. Stewart
Farm Economics Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 2:00 P. M. Thursday, November 10, 1961

Changes in farms and farming in the United States during the last two decades have occurred at an unprecedented rate. During the 1940's changes were stimulated by wartime labor shortages arising from mass transfers of agricultural workers into the Armed Services and defense industries, and by an expanding spread between prices received and prices paid (the parity ratio increased from 81 in 1940 to 115 in 1947). With a marked improvement in their incomes, farmers tripled their prewar level of machinery purchases and adopted other improved practices developed but only sparingly adopted during the depressed thirties. New technology enabled farmers not only to maintain, but to expand the size of their farms and to increase production rates to record levels, despite the unprecedented reduction in their labor force.

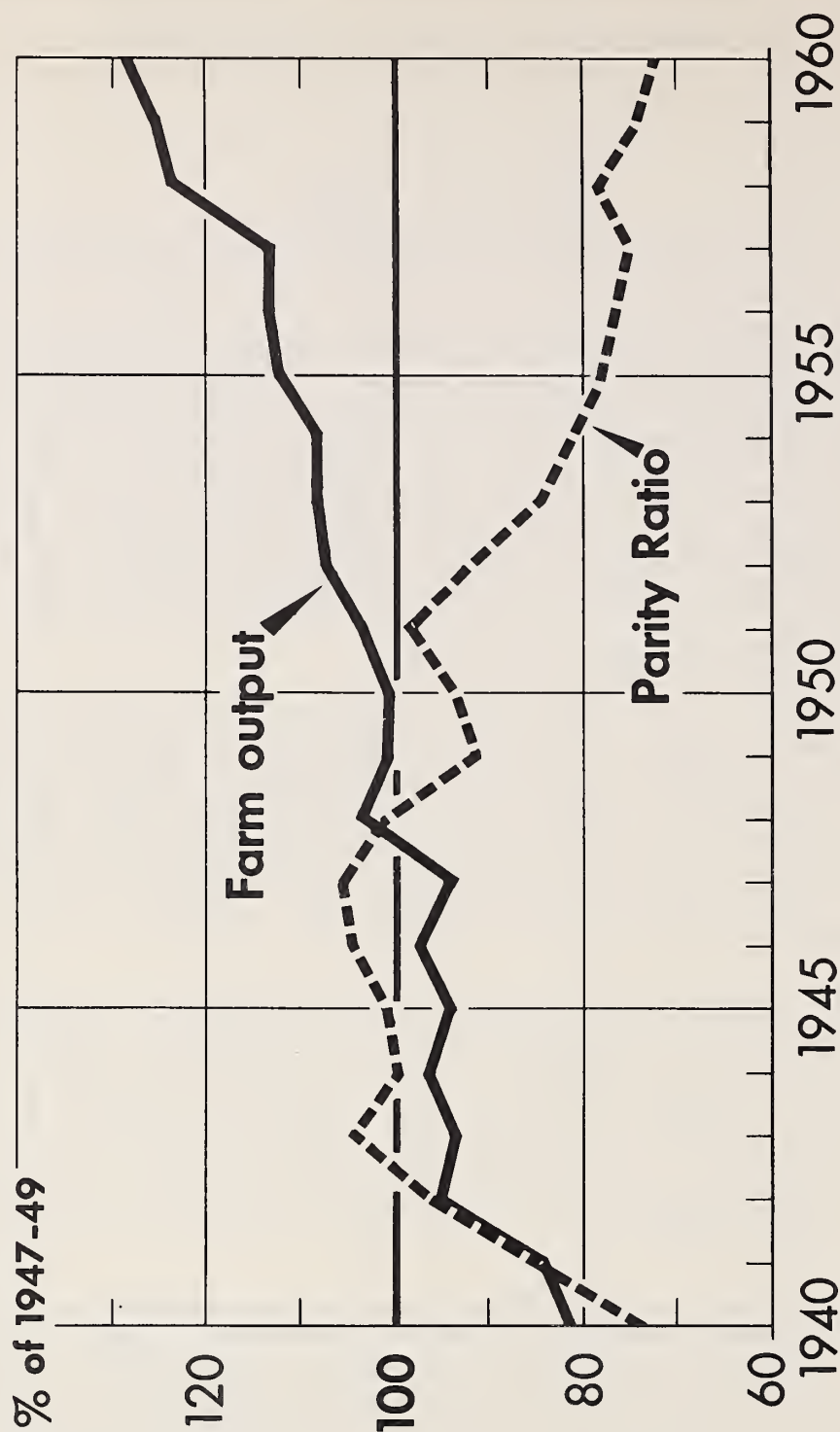
Abnormal war and postwar demands subsided in the early fifties but farm output continued to expand. Surpluses accumulated and prices fell--first in the free market and later with reductions in levels of price supports. In contrast to the incentive of an unusually favorable parity ratio, the developing price-cost squeeze became the motivating force whereby farmers were encouraged to continue expansion of their operations in the hope that a greater volume of production or lower unit costs would enable them to weather what many believed was only a temporary price-cost squeeze (fig. 1)

Surpluses increased--first those of war-stimulated commodities, such as wheat and cotton, then those of feed grains and livestock as resources were shifted to production of commodities for which there were no controls. Although the efforts made to expand demand met with considerable success considering the inelasticity of demand for agricultural products, it finally became apparent to all except the most ardent agricultural fundamentalists that our agricultural plant had been tooled up to a capacity in excess of market requirements. Total agricultural output exceeds total utilization consistently and our problems of abundance have become legion.

One bright spot in the picture throughout this period has been the fact that national economic growth has provided a continuing magnet to farm people in the form of higher paying, nonfarm employment opportunities. But despite our economic growth and the exodus of people from agriculture, the wide gap between incomes in agriculture and industry has continued to increase. Per capita incomes of farm people including income from off-farm sources, averaged \$986 last year. Per capita incomes of nonfarm people averaged \$2,282. Farm workers averaged 82 cents per hour for their work last year, while factory workers earned an average of \$2.29 per hour.

Certain signs indicate that efforts to stabilize and improve incomes in agriculture are finally meeting with some success. The index of prices received by farmers in 1961 is expected to average at least as high as in 1960--they were about one percent higher during the first ten months of the year--and net farm incomes is expected to be about one billion dollars higher

FARM OUTPUT AND THE PARITY RATIO



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 603-61 (10) ECONOMIC RESEARCH SERVICE

Figure 1

than last year. Notwithstanding our record corn yields, total feed grain utilization is expected to exceed production, and for the first time in 10 years, a start is being made toward reducing feed grain stocks. Cotton utilization will exceed cotton production, and total carryover of cotton on August 1, 1962, is expected to be the smallest since 1953.

However, our ability to continue to maintain a better balance between supply and demand and a better income position for agriculture is not assured. Structural changes made in agriculture in the past will affect this ability as will the understanding and appreciation of the public of the impact on their welfare of adjustments in agriculture. In turn, our ability to maintain a better balance between supply and demand will influence the nature of changes in farms and farming in the future. With the hope that we can contribute to a better understanding of desirable changes in farming, and of the contribution they can make to the general welfare, let us focus attention first on recent structural changes in farming and their impact on the general welfare. We shall then consider some further changes in farming which are suggested by recent trends, and by the prospective balance between supply and demand of agricultural products.

CHANGES IN FARMING IN THE 1950's

Major features of the structural changes in farming are familiar to most of us. Those expected to have the greatest impact on farm output and on our ability to maintain a balance between output and demand include:

- (1) The concentration of farming in fewer but stronger hands as a result of the marked reduction in the number of farms and the associated increase in the size of farms;
- (2) Marked reductions in farm population and the farm labor force, accentuating the trend toward an urban society;
- (3) Increasing specialization in farm operations; and
- (4) The tremendous change in the input mix in farming, which is associated largely with the substitution of capital items for labor and with an increasing dependence upon sources outside agriculture for capital and other inputs.

The culminating impact of these changes on efficiency of production doubtless will be the most significant factor influencing agriculture in the future.

Number and Size of Farms

Preliminary results from the 1959 census indicate that in that year there were 23 percent fewer farms and that farms were one-fourth larger in acreage than in 1954. Comparable changes in the preceding 5 years--1949 to 1954--were an 11-percent decline in numbers and a 12-percent increase in the average acreage of farms. Included in the changes since 1954 were a drastic decline in numbers of small farms, measured either in acres or in volume of sales, relatively little change in numbers of medium-sized farms, and a significant increase in numbers of large farms (table 1).

Table 1.- Number of farms, by specified value groups, United States, 1949, 1954 and 1959

Value group	Number of farms		
	1949	1954	1959
	<u>Thousands</u>	<u>Thousands</u>	<u>Thousands</u>
Number of farms, total-----	5,382	4,782	3,704
\$10,000 and over-----	484	583	794
5,000 - \$10,000-----	721	707	654
2,500 - 5,000-----	882	811	618
Under 2,500-----	3,295	2,681	1,638

The decrease in the numbers of farms reported between 1954 and 1959 was greater than in any other 5-year period recorded by the census. Even allowing for the omission of 232,000 farms in 1959 because of changes in the definition of farms, we find a 30-percent decline during the last 5 years in number of farms with sales of less than \$2,500. ^{1/}

The average size of farm reported by the census increased from 216 acres in 1949 to 302 acres in 1959. Changes in the definition of farms tended to magnify the increase in average size of farms reported, as only the smaller farms were eliminated by the change in definition. All of those eliminated had less than \$250 in gross sales; only 1 in 3 had any cropland harvested; and 99 percent had less than 10 acres of cropland.

Farm Population and Labor Force

More and more farm people, especially the younger, employable persons, have left agriculture as off-farm employment opportunities have presented themselves. Farm population declined nearly a fifth during the 1950's, while total population increased by a fifth. More people have moved from farms since 1930 than remain on farms. We have reached the point at which 7 in 8 Americans are nonfarm people.

Numbers of farmworkers declined even more rapidly than farm population--some 28 percent compared with about 18 percent since 1950. Numbers of farmworkers per farm remained relatively constant, but the average number of hours worked per year by each farmworker declined, and size of farm business per worker increased.

^{1/} Definition of a farm used in 1950 and 1954 censuses: Places of 3 or more acres if the value of products produced amounted to \$150 or more, and places of less than 3 acres if the value of farm products sold was \$150 or more.

Definition of a farm used in 1959 census: Places of 10 or more acres if the value of farm products sold was \$50 or more, and places of less than 10 acres if the value of farm products sold was \$250 or more.

Changes in Input Mix

Total inputs in agriculture have remained relatively constant since World War II. But the composition of inputs changed drastically as farm wage rates increased faster than prices of other inputs (fig. 2), and machinery, fertilizer, and other capital-using inputs were substituted for labor (fig. 3). Total man-hours of farm labor used in agriculture declined by a third in the last decade while mechanical power and machinery inputs were increased by a fifth, fertilizer and lime by three-fifths, purchased feed, seed and livestock by half, and miscellaneous inputs by more than a fourth (table 2).

Table 2.- Index numbers of total farm inputs and inputs in major farm groups, United States, 1940, 1950, and 1960
(1947-49=100)

Year	Total inputs	Farm labor	Farm real estate 1/	Mechanical power and machinery	Fertilizer and lime	Feed, seed and live stock purchases	Miscellaneous
1940---	97	122	98	58	48	63	93
1950---	101	90	103	118	118	101	108
1960---	102	62	106	142	192	149	138

1/ Includes interest on investment in land and buildings, depreciation of buildings, and grazing fee charges.

Source: Changes in Farm Production and Efficiency, A Summary Report, U. S. Dept. Agr., Statis. Bul. 233, Revised 1961.

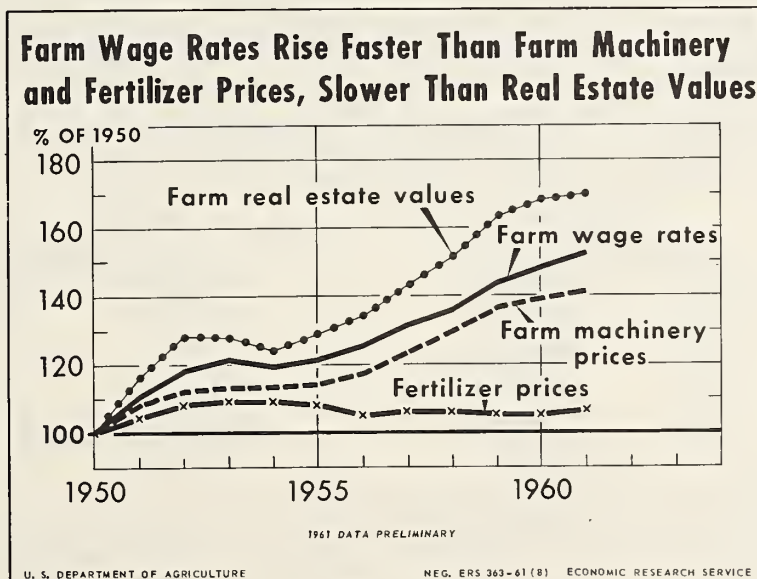


Figure 2

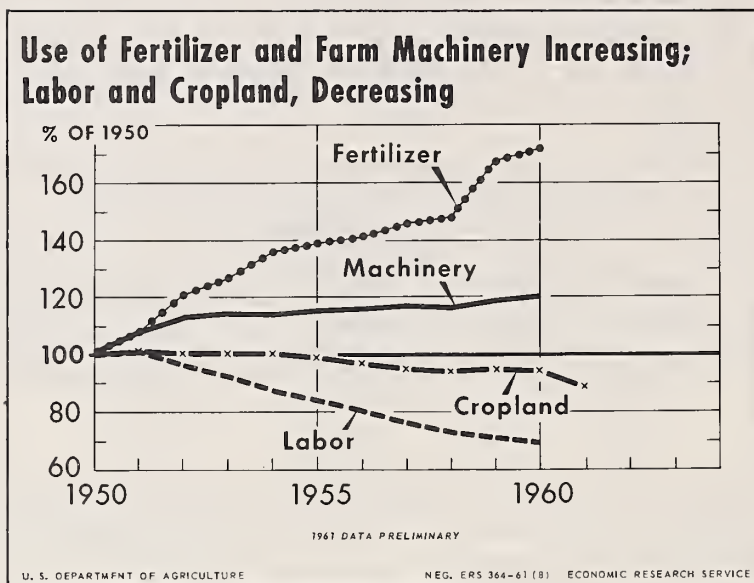


Figure 3

We do not have quantitative measures of all of the impacts of our technological advance on farm labor, but we do know that one effect has been relief from much of the drudgery formerly associated with many farm tasks. Nor do we have quantitative measures of the management input, but we do know that it has increased greatly. A rough indicator of this is provided by the marked increase in capital requirements for farming. The value of production assets per farm has more than doubled in the last decade. It has increased nearly sixfold since 1940. ^{2/}

Year	Per farm		Per Farmworker	
	Current prices	1947-49 prices	Current prices	1947-49 prices
1940	\$ 6,094	\$13,118	\$ 3,413	\$ 7,347
1950	16,979	16,979	9,625	9,625
1960	34,537	23,744	21,235	14,599
1961	35,424	24,185	22,141	15,117

^{2/} Tentative revisions in process as a result of the 1959 Census of Agriculture suggest that investments per farm might be some 13 percent higher at current prices, and 14 percent higher at 1947-49 prices than those reported here. See The Balance Sheet of Agriculture, 1961, U. S. Dept. Agr., Agr. Inform. Bul. No. 247. 1961.

Almost overnight, agriculture has become one of the higher-capital-using industries. The average investment of around \$22,000 per farmworker is substantially higher than the average investment per employee in manufacturing enterprises which was about \$15,000 in 1959. 3/

The capitalization of agriculture has broadened its production base greatly, but it has also made it increasingly dependent upon outside sources for its inputs and capital. Two-thirds of its production inputs are purchased (fig. 4); they are affected by the terms of trade with other, more highly organized sectors of the economy. Agriculture's liabilities to outside lenders have increased from \$10 billion to \$25 billion in the last two decades. 4/

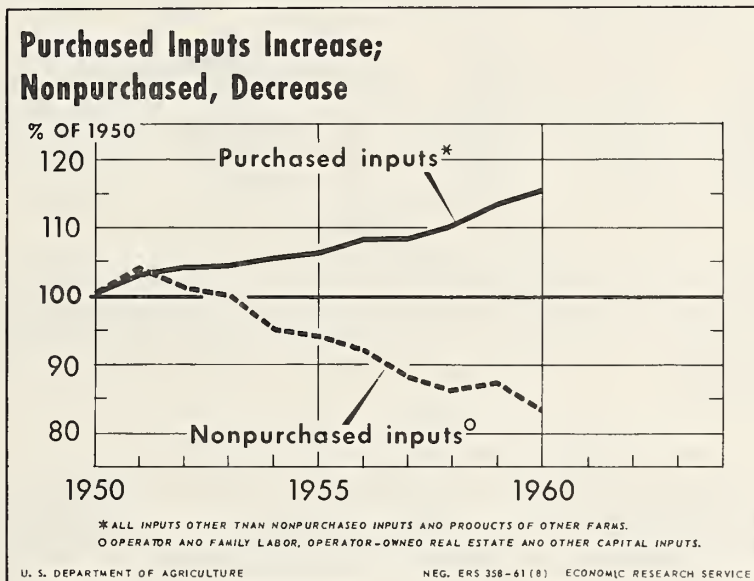


Figure 4

3/ Department of Agriculture Appropriations for 1961, Hearings, Subcommittee on Appropriations, House of Representatives, Eighty-sixth Congress, Second Session, page 234.

4/ See footnote 2.

The increased capitalization of agriculture has brought about a significant increase in cash operating expenses, thereby leaving a smaller proportion of gross returns for the farm family (fig. 5). Total farm operating expenses have increased fourfold since 1940. ^{5/} On a per farm basis, they had increased to nearly four times the 1940 level by 1953. ^{6/}

Specialization

The foregoing changes in farms were accompanied by a trend toward greater specialization. This seems to be verified by a decrease in numbers of farms reporting specific enterprises and an accompanying increase in the average size of enterprises reported (table 3).

Table 3.- Number and size of selected farm enterprises reported by the census, United States, 1950 and 1959

Item	Number of farms reporting			Size of enterprise per farm reporting			
	1950	1959	Percent- age de- crease, 1950-59	Unit of size	Percentage increase, 1950 to 1959		
					1950	1959	
	Thous.	Thous.	Percent				Percent
Milk cows-----	3,648	1,791	51	:Number	5.8	9.2	59
Eggs sold-----	2,421	1,067	56	:Dozen	995	3,112	213
Turkeys raised----	162	87	46	:Number	225	957	342
Potatoes harvested:	1,649	685	58	:Bushel	222	543	145
Cotton harvested--:	1,111	509	54	:Bale	14	27	93

Despite the drastic changes going on in these enterprises, however, and despite all the publicity attendant thereto, the continuing smallness of the average enterprise needs to be noted. Large numbers of small enterprises more than offset the large, specialized enterprises that have been publicized so widely.

So much has been written about the rapid development of large-scale commercial farm enterprises that many have concluded that they are becoming the dominant type of organization in our agriculture. Changes occurring in the cattle-feeding industry in the South Platte valley of Colorado, one of the areas and types of farms widely publicized as shifting rapidly to large-scale, commercial operations, do not substantiate this view. The number of South Platte operators feeding more than 1,000 head of cattle annually more than doubled between 1953 and 1959, but in 1959 more than 86 percent of all feeders still were feeding less than 325 head annually (a one-man operation with modern equipment), and 58 percent were feeding less than 125 head

^{5/} U. S. Department of Agriculture, Economic Research Service, The Farm Income Situation, July 1961, table 14 H.

^{6/} Since total current farm operating expenses increased 25 percent between 1953 and 1960, and numbers of farms continued to decline, it seems likely that current farm operating expenses per farm increased some five-or sixfold between 1940 and 1960.

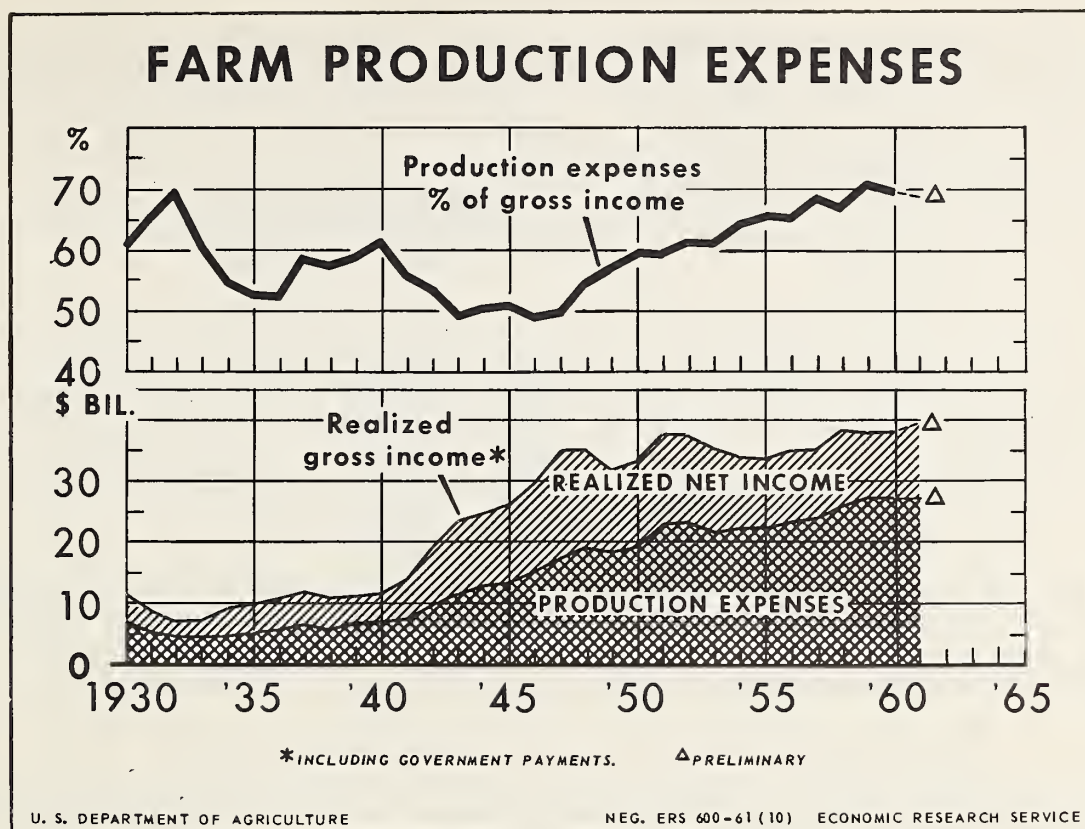


Figure 5

annually (table 4). Farmers with otherwise unutilized forage and labor are staying in the feeding business.

Table 4.- Number of cattle feeders, by number of cattle fed, South Platte Valley, Colorado, 1953 and 1959 ^{1/}

Number of cattle fed	Number of feeders, 1953			Number of feeders, 1959	
	Number	Percent		Number	Percent
Less than 125-----	1,841	68	:	1,315	58
125 to 324-----	661	25	:	632	28
325 to 999-----	151	6	:	229	10
1,000 or more-----	37	1	:	81	4
Total-----	2,690	100	:	2,257	100

^{1/} Unpublished data assembled by E. C. Hunter, Farm Economics Division, Economic Research Service, from records of the Great Western Sugar Company.

Position of Family Farms

The rapid adoption of technology in agriculture, with its accompanying transformation to a highly capitalized, efficient industry has had less undermining impact on the family farm than is frequently believed. The family farm has proved to be sufficiently flexible and amenable to change to permit it to retain, and even to enhance, its position. Before elaborating on this, however, we need to define the institution to which we refer as the family farm. We need also to distinguish clearly in our thinking between "adequate" and "inadequate" family farms.

Brewster has provided us with a very meaningful definition of the family farm. 7/ It has two essential characteristics. It is a farm business in which the farm family provides (1) at least half the labor and (2) most of the management. It has no ownership or tenancy attribute because acquisition of management control is independent of ownership. Nor are there any size or income limitations other than those imposed by the labor capacity of the farm family and an equal or nearly equal amount of hired labor.

Size limitations become important, however, when we distinguish between adequate and inadequate family farms in the sense of adequate size and productivity to meet operating expenses including maintenance and interest on investments, and the family expense required to provide an acceptable level of living.

As the labor forces of farm families average about 1.5 man-years, the size limit of family farms as defined here averages about 3 man-years of total labor. And, as other studies have shown rather consistently that at least \$10,000 gross sales are required to provide a family income of \$2,500, farms with gross sales of \$10,000 or more can be considered adequate if family earnings of \$2,500 are considered to be a minimum level required to meet expenses and provide an acceptable level of living. 8/

Contrary to the opinion of many, family farms are becoming increasingly important in our agriculture (fig. 6). Of even greater import is the fact that adequate family farms are increasing in importance and at an accelerated rate. This occurs as smaller farms drop out and their real estate is added to other units. 9/ and as the substitution of capital for labor enables farm families to operate larger and larger units (table 5). This suggests that

7/ Brewster, J. M. and Wunderlich, Gene, Farm Size, Capital and Tenure Requirements, in Adjustments in Agriculture, A National Basebook, Ames, Iowa, 1961.

8/ Based on estimates of earnings of workers in manufacturing, which until recently approximated \$2,500 in some areas. However, the scantness of this level is reflected by a comparison with factory workers' earnings in 1960 which, assuming a 50-workweek year, exceeded \$3,100 in the lowest wage States.

9/ Nearly half (45 percent) of the farm real estate transfers in 1959-60 were for purposes of farm enlargement.

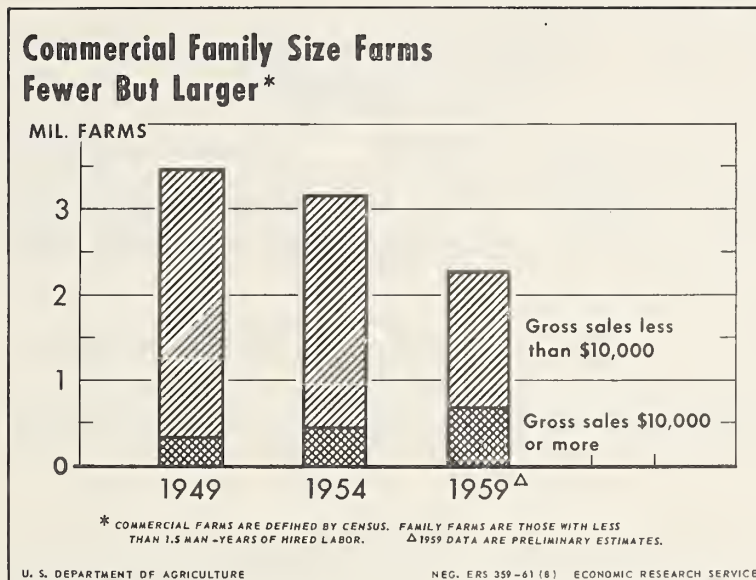


Figure 6

technology is compatible with "adequate" family farms, a conclusion that is substantiated by a number of pertinent studies of economics of scale for different types of farms in different areas, ^{10/} and by Brewster's conclusions that the family farm is not incompatible with technological advance on conceptual grounds. ^{11/}

Table 5.- Estimated number and percentage of commercial farms that were adequate and of family size, 1949, 1954, and 1959 ^{1/}

Farms	:	:	:	Change,	
	:	:	:	1949 to 1959	
	:	:	:	: Increase	: Decrease
	: Thousands	Thousands	Thousands	Percent	Percent
Family-total-----	3,472	3,138	2,262		35
Adequate-----	334	440	680	104	
Inadequate-----	3,138	2,698	1,582		50
Larger than family-----	234	189	150		36

^{1/} Estimates developed by R. N. Nikolitch, Farm Economics Division, Economic Research Service, Adequate farms are defined as those reporting \$10,000 or more gross sales and family size farms as those with less than 1.5 man-year equivalents of hired labor.

^{10/} For a discussion see Stewart, H. L. The Organization and Structure of Some Representative Farms in 1975, Jour. Farm Econ. 42 (5):1367-1379. Dec. 1960.

^{11/} Op. Cit.

Changes in Production Efficiency

As indicated earlier, the most significant change in farming has been the increase in production efficiency accompanying the foregoing structural changes. Total production inputs have remained relatively constant but total output, and hence output per unit of input, has increased by a fourth in the last decade (fig. 7) (table 6).

Table 6.- Index numbers of farm output, inputs, and productivity, United States 1940, 1950, and 1960 (1947-49=100)

Year	Farm output	Production inputs	Output per unit of input	Productivity		
				Output per man-hour	Crop production per acre	Livestock production per breeding unit
1940----	82	97	85	67	88	92
1950----	101	101	100	112	92	105
1960----	127	102	125	208	129	130

Source: Changes in Farm Production and Efficiency, A Summary Report, U. S. Dept. Agr. Statis. Bul. 233, Revised July 1961.

Great efficiency has been achieved in the use of labor. Output per man-hour, which reflects the net effect of all factors of production, has doubled in the last decade. The increase in labor efficiency in crop production has been nearly double that in livestock production. Increases in crop production per acre permitted a 25-percent increase in total crop production despite a 6-percent reduction in acreage of crops harvested (fig. 8)

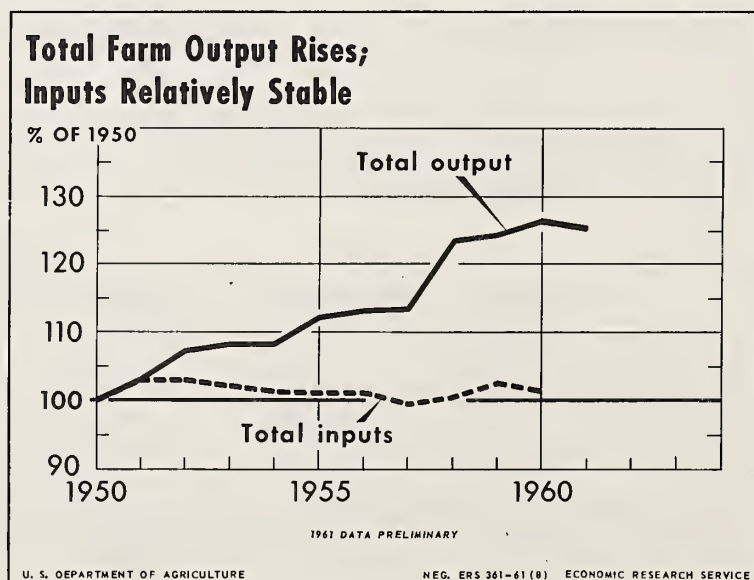


Figure 7

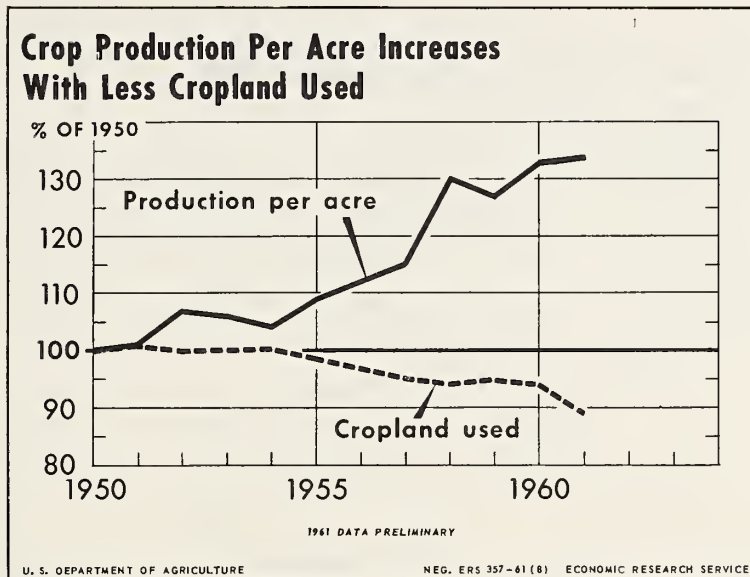


Figure 8

Increases in livestock production per breeding unit permitted an 18-percent increase in livestock production notwithstanding a 5-percent reduction in animal units of breeding stock (fig. 9).

Gain in output per man-hour in agriculture greatly exceeded that in industry. Using the G.N.P. value added concept, it averaged 5.1 percent during the decade 1950 to 1960, compared with 2.7 percent in manufacturing and only 2.2 percent in all nonfarm industries. ^{12/}

Contribution to General Welfare

Despite the problems of abundance it seems to create, increased efficiency in agricultural production has made some very significant contributions to the general welfare. Many of these contributions are not apparent to the consumer, who seems to be more prone to associate the increasing cost of his grocery bill with headlines about high priced cars paid for by not growing corn than he is to associate increases in his standard of living with changes in agricultural efficiency. A better understanding by all will be required if agriculture is to be permitted in our increasingly

^{12/} Calculated from Output per Man-Hour in the Private Economy in 1960, U. S. Dept. of Labor, News release, August 13, 1961.

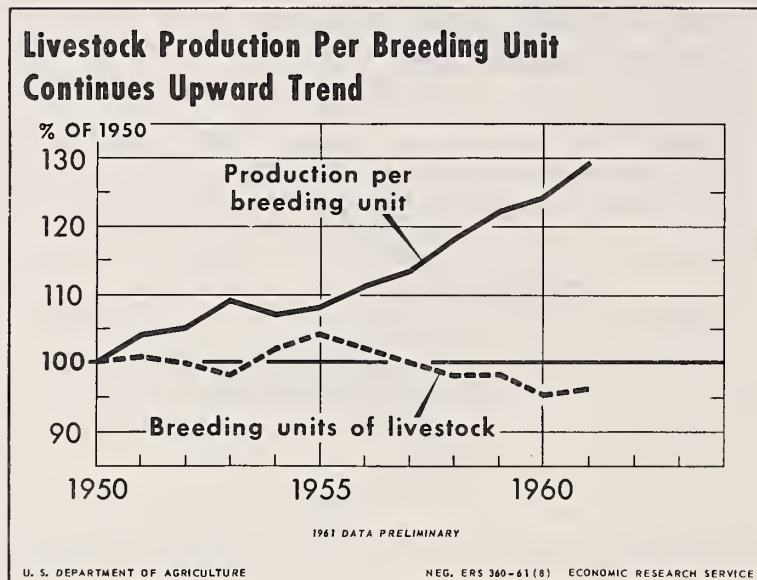


Figure 9

urban society to continue to make the changes that will maintain acceptable levels of income in agriculture while optimizing its contribution to the welfare of the total economy.

One of the greatest benefits to the consumer from increasing productivity in agriculture has been the higher standard of living associated with the unprecedented quantity, variety, and quality of foods and fibers at an increasingly lower real cost. This has been manifested in at least two ways:

(1) The real cost of our food is the lowest it has ever been.

Notwithstanding the additional services received in the form of processing, packaging, sanitation and other health measures, and shopping services and conveniences, an hour of factory work will buy an increasing amount of food, as a result of increasing productivity of both agriculture and factory labor. On the average, it would buy in 1960 as compared with 1947-49:

<u>1960</u>	<u>1947-49</u>
10.1 loaves of bread	9.6 loaves of bread
8.1 quarts of milk	6.5 quarts of milk
3.6 doz. eggs	1.8 doz. eggs
3.6 lbs. of pork cuts	2.2 lbs. of pork cuts
2.5 lbs. of choice beef	1.9 lbs. of choice beef

When one compares the quantity (and quality) of food to be purchased in the United States by an hour of factory work with that in other countries, the contrast is impressive.

(2) The cost of production resources used in producing our food and fiber has been very much less than it would have been without our technological advance. The accumulated savings during the 1950's in the value of production resources used, compared with those that would have been required had 1950 production practices been used, totaled nearly \$48 billion. In 1960 alone, and again in 1961, they totaled more than \$8 billion.

A second major contribution of agriculture's increasing productivity has been the release of manpower to other sectors of the economy where it has made significant contributions in industry, the professions, the arts, and the defense efforts of our country. So productive has been the American farmer and so great the consequent movement of people out of agriculture, that the United States is able to maintain a larger nonfarm labor force than the Soviet Union, even though the total labor force in the USSR is half again as large as ours:

<u>Labor Force</u>	USA (Millions)	USSR (Millions)
Farm	7.4	48.3
Nonfarm	62.0	58.1
Total civilian	69.4	106.4

If a similar comparison were made with China, the American superiority would be even more outstanding.

A third benefit of our agricultural productivity has been the food and fiber provided for economic development and the alleviation of hunger in underdeveloped countries. Expenditures totaling nearly \$1.3 billion were made for such purposes in fiscal 1961, and they are being increased under current authorizations. As more than four-fifths of these expenditures represented sales for foreign currencies or bartered materials to supplement stockpile, a return much greater than many concede will be realized from them. But irrespective of any return anticipated or realized, they have made a major contribution to the stability of the world, a contribution that would not have been possible without the increasing efficiency of agriculture. They illustrate the effectiveness with which our increasing productivity in agriculture can be used as an effective tool by the Free World.

Still another impact of our increasing agricultural productivity has been the stabilizing, or anti-inflationary effect, on the general price level. The consumer price index for food has been lagging significantly behind the nonfood price index since shortly after the Korean War. Had it kept pace, the consumer price index for all items would have increased another 4 percent or so compared with the 12 or 13 percent increase since the mid-fifties. And if a 22-percent decline in farm prices (1951 to 1960) had not offset a portion of the increasing costs of services and other nonfood items in the food budget, the inflationary effect would have been even greater.

Prospects for the 1960's

We have little reason to believe that the advance in agricultural productivity has run its course. Numerous studies throughout the country show that most farmers could increase their output by merely closing the gap between the level of practices they are following and the improved practices already known and in use by leading farmers.

Corn grown by cooperating farmers in the Iowa Corn Yield Tests when adjusted for weather, yields better than 100 bushels per acre, compared with the record State average yield of 73 bushels per acre harvested in 1961 and the average of 55.7 bushels during the 1950's. ^{13/} Analyses show that by adopting improved practices, dairy farmers in east-central Minnesota could increase their output and incomes by three-fifths to three-fourths, and farmers in southeastern Minnesota could increase their corn yields 30 percent, oat yields 25 percent, and legume hay yields 60 percent. ^{14/} There are similar possibilities in other areas of the country. And there is little reason to believe that the flow of output-increasing techniques from drawing boards and test tubes will diminish.

When we attempt to analyze prospects for balancing output and demand in the years ahead, we are confronted with both production rate and demand uncertainties. Apparently, demand is becoming more nearly a direct function of population, but projections of both crop and livestock production rates continue to be subject to substantial error. Whether our expectations are conservative or optimistic, however, we reach the same basic conclusion-- we will continue to have excess capacity in agriculture for some time to come.

If we were to assume, for example, that total farm output would continue to expand at an annual rate of 2.6 percent, that population and per capita disposable real income would increase at rates comparable to those of the 1950's, and that commercial exports would expand at the same rate as domestic demand, we would conclude that total farm output would continue to outrun demand by about 0.5 percent per year. By 1970, then, total farm output would exceed total demand by as much as 10 percent annually, notwithstanding a 30-million increase in our population.

One analysis of prospective production and outlet balances projects an aggregate surplus capacity equivalent to some 15 to 25 million acres of cropland continuing into the mid-1960's. ^{15/} This includes an estimated 10 million acres of land that might be released for crop use from the conservation reserve under provisions of the present program, some 5 million acres of wheat, and 5 to 15 million fewer acres of feed grains than were harvested in 1959. Also, a modest increase in acreages of cotton (1 to 2 million acres)

^{13/} Preliminary findings developed by Lawrence H. Shaw and Donald D. Durost, Farm Economics Division.

^{14/} Sundquist, W. B. and Day, L. M. Profitable Organization of Farms in Central Minnesota, Minnesota Univ., Minn. Farm Business Notes, July 1961; also Sundquist, W. B. and Caldwell, A. C. Profits from Fertilizer Use, Minn. Univ., Minn. Farm Business Notes, March 1960.

^{15/} U. S. Agricultural Research Service, Farm Economics Division, Farm Production, Trends, Prospects and Programs, U. S. Dept. Agr., Agr. Inform. Bul. 239, May 1961.

and soybeans (3 million acres), compared with acreages harvested in 1959 (fig. 10).

These projections assume (1) a population about 10 percent greater than in 1959; (2) substantial increases in real income per person with a consequent greater increase in food use of livestock products than in food use of crops; and (3) about a 20-percent increase above 1959 levels in exports of farm products. The conservative character of the latter has been demonstrated by the 22 percent increase in agricultural exports in 1960 compared with those of 1959.

Crop yields and livestock production rates also are projected at levels which some persons may regard as conservative in view of recent achievements and possibilities of developing new technology. Recent and projected yields of a few major crops are:

	1953-60	Projected	
		1965	Adjusted 1965
Corn-----	51.9	51	55
Grain sorghums-	37.7	32	37
Wheat-----	24.2	23	--
Cotton-----	457	480	--

In the case of corn, it has been estimated that by 1965 the average yield might be increased to 59 bushels instead of the 51 to 55 bushels projected, if fertilizer rates (and associated practices) were increased on 75 percent of the total corn acreage to a point at which each additional dollar spent

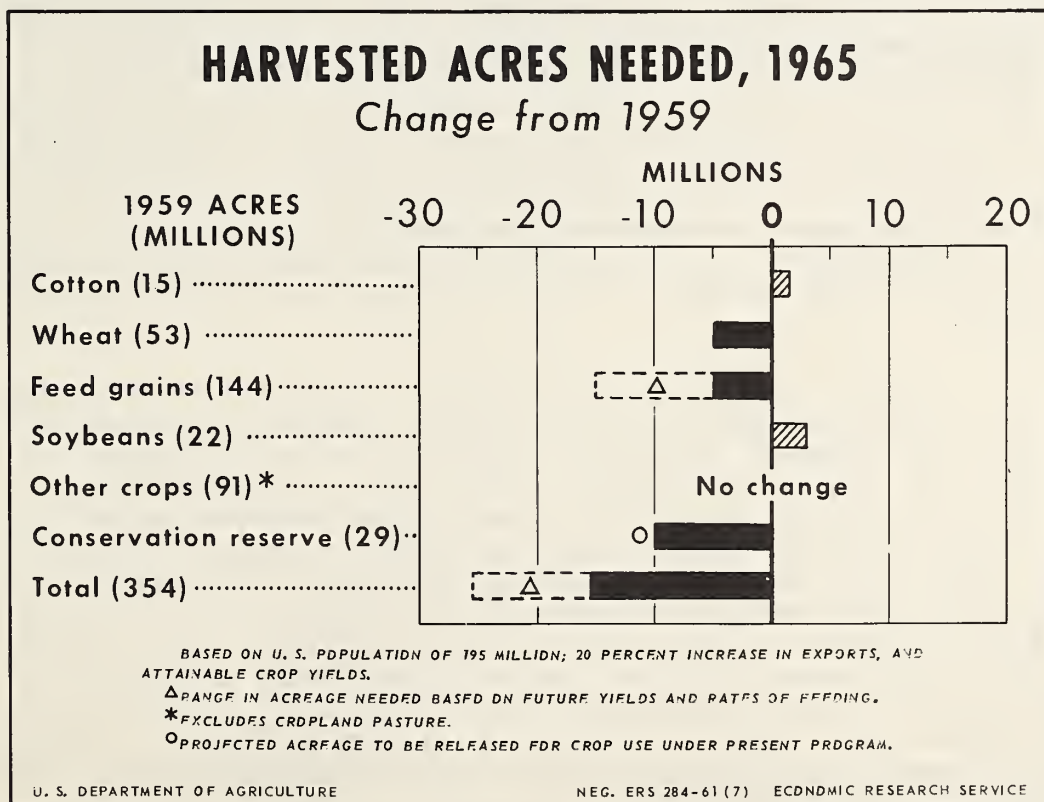


Figure 10

for fertilizer would produce \$2 worth of corn at present prices. Similarly, although substantial increases in livestock efficiency are deemed to be attainable, feeding efficiency was projected at current levels because of prospects for continued large supplies of feed.

A less conservative view of prospective production rates is taken in a forthcoming USDA analysis of land use needs and potentials by 1980. Based on a straight-line projection of trends in crop production per acre from 1950 to 1961, a total population projected at about 247 million, and an aggressive Food for Peace Program, this analysis indicates a need for cropland and total agricultural land by 1980 somewhat less than current levels. Some 55 million acres currently are diverted from crop use under the emergency feed grain program and the conservation reserve. And it does not appear likely that much of this will be needed by 1980. This does not relieve us of the responsibility for being selective in choosing the land released from agriculture, but it does suggest the availability of ample land through the next two decades at least, for urban, recreational, and other nonagricultural needs.

Whether or not these projections prove to be conservative, the important conclusion to be drawn from them and similar projections is that total agricultural output is likely to continue to exceed demand for some time to come unless we are increasingly successful in our efforts to control output. This is one of the important facts we need to recognize as we consider prospective changes in farming. For it means that the efforts of those producing surplus commodities to shift to production of alternative commodities will continue to accentuate market pressure on the alternative commodities. It means that the price-cost squeeze will continue to encourage adoption of new, cost-reducing, output-increasing technology. And it means that the price-cost squeeze, together with the new technology, will require an ever-increasing size of business in order to maintain the incomes of producers.

Our increasing standard of living also will exert an additional upward pressure on the size of adequate family farms. Higher net income will be required. In addition, as more and more purchased inputs are substituted for farm-produced inputs, a diminishing portion of the returns will be available for the farm family. Hence, gross income will have to increase even more rapidly than net income in order to assure acceptable levels of income for farm families.

Thus, it seems clear that our educational and credit programs should encourage a continuous growth in size of farms. Brewster indicates that if minimum farm family income requirements were to increase at an annual rate of 3 percent--in contrast to an annual growth rate of about 3.5 percent achieved in the national economy during the postwar period--we might expect minimum adequate farms to require gross marketings of at least \$15,000 by 1975. ^{16/} With such a growth rate, average marketings of our present 680,000 adequate family farms would rise from \$22,500 to approximately \$35,000 per farm. They would have a gross output of some \$24 billion. If, in addition, the 150,000 units currently larger than family farms were to continue to produce \$8 billion worth of food and fiber, the remaining \$9 billion worth of farm products which would be required by our 1975 population would require some 600,000 minimum adequate units with marketings of \$15,000 each. These

^{16/}Brewster, J. M., The Changing Organization of American Agriculture, paper presented at meeting of the Agricultural Committee of the National Planning Association, Washington, D. C., October 28, 1961.

could be created from the 1.6 million commercial farms with marketings of less than \$10,000 each. ^{17/} Thus, in addition to the 1.3 million part-time, residential and other so-called noncommercial farms, which currently account for only 3 percent of all farm marketings, we would have about 1.4 million commercial farms.

These projections could prove to be conservative. Production expenses expressed as a percentage of gross farm income are increasing at an annual rate of about 1.5 percent (53 percent in 1947-49 compared with 69 percent in 1960).^{18/} Thus, gross sales may well need to exceed \$15,000 by 1975 for minimum adequate farms. It is unreasonable, however, to expect all inadequate farms to be reorganized within the next 15 years as parts of adequate units. And these factors tend to offset each other.

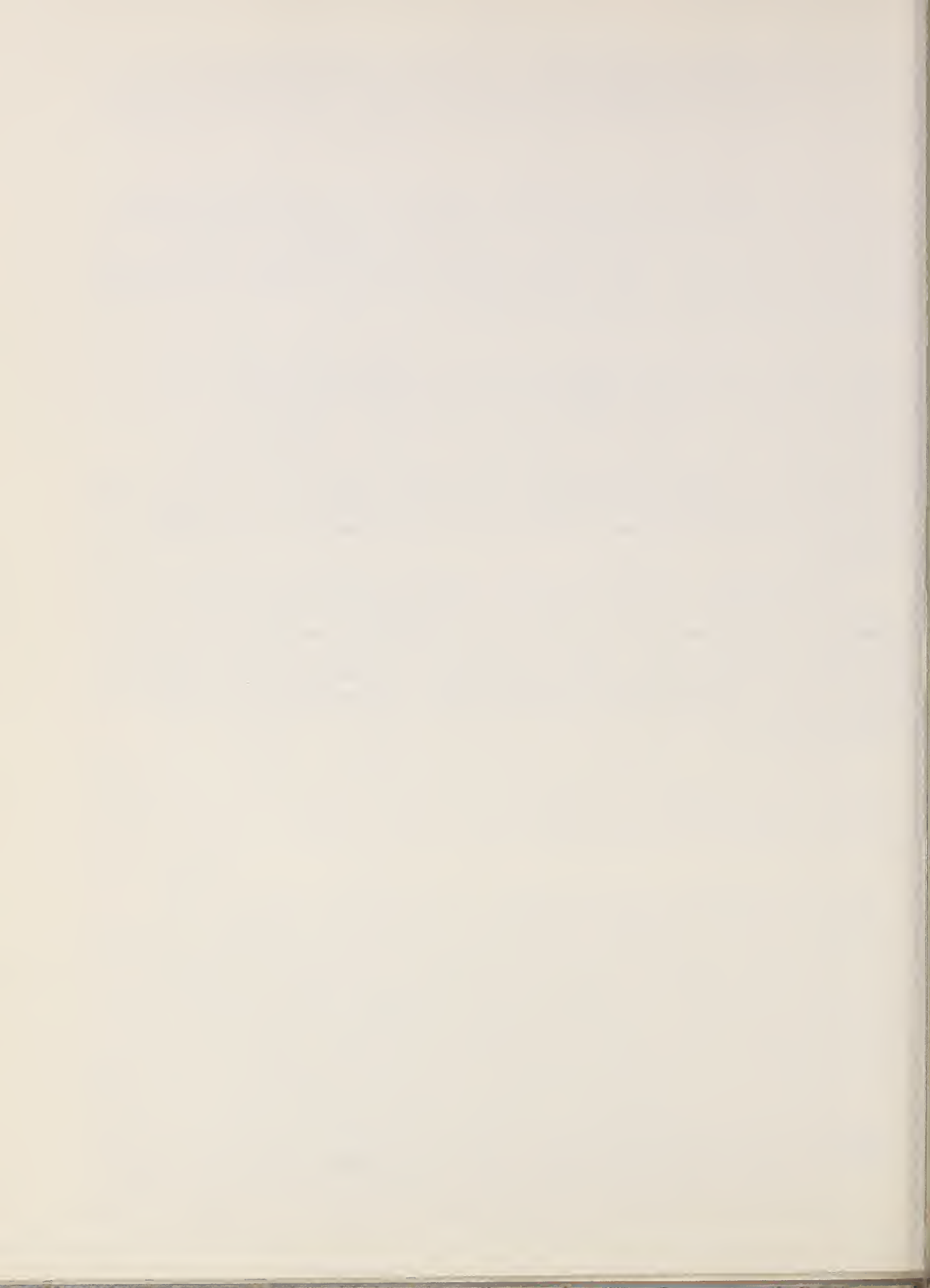
Rough as they are, these calculations suggest with considerable realism some of the major changes in farms and farming to be expected in the next 15 years. They suggest that there may be about two-fifths fewer commercial farms but that in terms of current dollars, marketings per farm might average about 2 1/4 times as large as in 1960. Production assets per farm will be about double current levels if trends of the 1950's continue. The proportion of inputs dependent upon the terms of trade with other sectors of the economy will increase, as will agriculture's dependence on nonfarm sectors for production inputs, markets, and policy decisions impinging on agriculture.

The magnitude of the adjustments made by agriculture in the past suggests fulfillment of those required in the future, if farm people, especially the younger people who have yet to choose vocations, have full knowledge of their scope. Continuing pressure of supply on demand, increasing size of business and capital requirements in establishing and maintaining farms capable of providing an adequate income, and increasing dependence of agriculture on nonfarm sectors and on economic growth are requisite areas of understanding.

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^{17/} Ibid.

^{18/} U. S. Economic Research Service. Farm Cost Situation, November 1961.



UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

THE COMPLEX PROBLEM OF COTTON TEXTILE IMPORTS

Talk by Robert C. Sherman
Cotton Division

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Introduction

U. S. imports and export trade in textiles made of cotton, wool, man-made fiber, and silk is big business, running over a billion dollars annually. Traditionally, the United States has exported far more textiles than it has imported, but the relative importance of imports and exports vary considerably by fiber. For example, imports of wool and silk textiles substantially exceed their exports. Exports of man-made fiber products have always exceeded their imports. We have traditionally exported more cotton textiles than we have imported, but in 1960, this relationship changed when imports exceeded exports, and was the culmination of a long chain of developments that caused increased concern to spread throughout the U. S. cotton textile industry and the U. S. Government.

In our early history, imports were a life-line to the "Old World", and they remain important in many fields. Basically, there are only two reasons why countries import at all. The first is to procure an item that otherwise is unavailable or in short supply domestically. For the United States, examples of this kind of import are diamonds, coffee, bananas, chromium, silk, and cashmere. The second reason is to procure items for which there is a price differential so substantial that it can overcome the combined costs of export and import handling, transportation, and tariff barriers. Examples of this type of import are oil, steel, and certain textiles.

We import cotton textiles for both basic reasons. Of late, the more overriding has been the price disparity between foreign and domestic textiles. Because of our raw cotton export payment program, prices at which foreign mills can purchase U. S. cotton are several cents under the prices paid by U. S. mills, even after export costs are added. Foreign labor costs, although they vary considerably by country, are substantially below labor costs in the United States. These cost advantages, when added to the high productivity of some foreign plants, particularly Japan, have resulted in prices that can easily surmount U. S. tariffs on cotton textiles. These tariff rates on most cotton textile items remain in the 10 to 35 percent range, although they were reduced from much higher levels by means of negotiations under the trade treaty called the General Agreement on Tariff and Trade, in which the United States participates under the authority of the Trade Agreements Act.

Table 1.-- United States foreign trade in textiles, 1960

Type	Imports	Percentage of total imports	Exports	Percentage of total exports	Total foreign trade	Percentage of total foreign trade
	Million dollars	Percent	Million dollars	Percent	Million dollars	Percent
Cotton	253.3	40.7	236.4	46.4	489.7	43.3
Wool	221.6	35.7	8.2	1.6	229.8	20.3
Man-made	74.5	12.0	261.2	51.3	335.7	29.7
Silk	72.0	11.6	3.5	.7	75.5	6.7
Total	621.4	100.0	509.3	100.0	1,130.7	100.0
Cotton	255.6	59.7	233.1	64.5	488.7	61.9
Wool	132.1	30.8	4.7	1.3	136.8	17.3
Man-made	31.1	7.3	122.9	34.0	154.0	19.5
Silk	9.3	2.2	.6	.2	9.9	1.3
Total	428.1	100.0	361.3	100.0	789.4	100.0

1/ Estimated.

Source: F. T. 110 "United States Imports of Domestic and Foreign Merchandise" and F. T. 410 "United States Exports of Domestic and Foreign Merchandise", U. S. Department of Commerce, Bureau of the Census.

Table 2.- Cotton textiles ^{1/}: Raw cotton equivalent of United States exports and imports, average 1934-38, annual 1950-1960

Year	Exports	Imports	Export balance
	1,000 <u>bales</u>	1,000 <u>bales</u>	1,000 <u>bales</u>
<u>Average</u>			
1934-38	238.0	100.6	137.4
<u>Annual</u>			
1950	538.8	83.4	455.4
1951	809.7	70.7	739.0
1952	703.9	67.5	636.4
1953	606.7	92.8	513.9
1954	604.5	101.0	503.5
1955	547.5	181.2	366.3
1956	530.4	225.0	305.4
1957	579.1	199.1	380.0
1958	521.0	233.8	287.2
1959	492.6	360.0	132.6
1960	485.6	525.5	-39.9

Source: Compiled from The Cotton Situation, No. 196, September 1961

Groups Having a Stake in U. S. Imports and Their Conflicting Interests

Textile imports by the United States are many things to many people, and of necessity, different things to different groups of people. We shall turn now to examine briefly the positions of several groups having a direct and major interest in cotton textile imports into the United States.

Cotton Growers.-- One of the important groups interested in cotton textile imports, and certainly a group in whom the Department of Agriculture has a vital interest, is the cotton growers of this country. For a long time, export markets for raw cotton greatly overshadowed the domestic market in importance; in fact, it was not until the late 1930's that a clear-cut pattern of domestic raw cotton consumption higher than export shipments emerged. But now the cotton growers' largest single market for their raw cotton is the domestic market, consuming between 8 and 9 million bales annually. However cotton growers produce several million bales in excess of this level, and they are therefore dependent upon export markets to absorb the quantity of cotton grown beyond domestic needs.

Cotton Merchants.-- U. S. cotton exporters, practically synonymous with U. S. cotton merchants, form another group having a major interest in cotton textile imports. The exporters' interests are somewhat parallel to those of the growers. The growers and merchants know that in order to maintain their domestic sales of raw cotton, it is essential that the cotton textile industry of this country continue in a strong position; they also understand that restrictive measures toward cotton textile imports could adversely affect their markets abroad for raw cotton. Furthermore, both farmers and cotton merchants know that a sizable share of the cotton contained in imported textiles is of non-U. S. origin. Of course, the percentage varies greatly between countries, from well over 90 percent for Taiwan and Korea to zero in the case of Egypt, where no U. S. cotton is used. Despite their divided loyalties between domestic and foreign customers, the growers and merchants, joined by the ginnermen, warehousemen, seed crushers, and spinners, as represented by the National Cotton Council, petitioned the Secretary of Agriculture in June 1959 for relief from the "unreasonable and intolerable handicap" which the domestic manufacturers of cotton textiles face as they "strive to defend the home market against foreign competition".

Manufacturers of Cotton Textiles.-- The attitude of U. S. manufacturers of textile products concerning textile imports is clear-cut. While representatives of the U. S. industry are the first to admit that many problems exist within the industry to which it must find answers, they claim that the expanding volume of imports has placed them at a serious disadvantage in view of their higher costs. In testimony before the Pastore Committee, in Congress, the manufacturers claimed that the "disruptive effect of substantial and increasing volumes of imported textiles has been felt in virtually every sector of the United States textile market", and that although imports were a relatively small

percentage of the domestic market, they depressed the domestic price structure in view of the finely balanced position between production and demand in this country.

In May of this year, ten textile manufacturing groups, representing all segments of the industry, pushed forward their campaign for protection from imports with an appeal to the Office of Emergency Planning (formerly the Office of Civil and Defense Mobilization, otherwise known as OCDM) in which they asserted that "textiles and textile manufactures are being imported under such circumstances as to threaten to impair the national security". Although, U. S. textile producers have contended that textile imports were ruining their business with unfair competition, integrated textile producers have themselves imported large quantities of goods in order to meet the acutely competitive price levels of the goods imported by others.

Importers.-- From the cotton merchants and growers, and manufacturers of textiles, let us turn to another group having much at stake in cotton textile imports -- the importers themselves. They claim that it is to the national interest and in furtherance of our foreign policy that a free flow of trade be permitted, and that, in order to sustain our high level of exports of commodities for which we have a competitive advantage, we must also import. Importers contend that the competitive forces that have turned American buyers to imported goods is simply a manifestation of the economy under which we choose to live. Undoubtedly the major impetus for the large increase in textile imports has originated with U. S. importers rather than solely from foreign sellers, as some people might suppose. Since imports constitute the foundation of their business, interference with the forces of supply and demand in international textile trade is not to their liking.

Labor.-- Another group having a direct interest in imports is American labor, especially those working in the U. S. textile industry. Employment of production workers in the textile industry as a whole totaled more than 1.1 million in 1947. Employment dropped to around 800,000 by 1958, a decrease of about 28 percent in 11 years. While some of this decrease in employment is undoubtedly attributable to import competition, it has been estimated by Prof. Seymour Harris, Chairman of the New England Governors' Textile Committee that the loss of employment from increased productivity has been at least three times as large as the loss from rising imports. Labor does not lay all of its woes upon imports, recognizing the many factors that have contributed to the textile industry's failure to participate fully in the growth of the American economy in the past 30 years. Labor has claimed, however, that the sharp rise in imports has seriously aggravated the industry's problems. As a consequence, labor has requested protection against imports produced by workers abroad whose pay scales are a small fraction of theirs, has suggested fair labor codes for commodities in international trade, and

has urged wage adjustments that reflect changes in productivity. This attitude on the part of labor is a modification of its traditional role as an advocate of free trade.

Consumers.-- American consumers of course, constitute another group having a substantial interest in textile imports. To the consumer, an import can be many things -- something that is cheaper than a similar domestic item; an item that is new, unusual, of special design, or otherwise different from those available from domestic sources; something that gives him a greater variety of goods from which to select; or perhaps something having special appeal because it carries a foreign label. All of us are consumers, but some consumers also fall into other interest groups -- cotton farmers, textile workers, textile manufacturers, importers, exporters, etc. Therefore, in many instances, consumers also have divided loyalties, from the realization on the one hand that imported goods offer certain personal advantages and on the other hand that they might cause some undesired results.

Foreign Cotton Textile Producing Countries.-- We may now look for a moment beyond the shores of the United States, and consider groups in other countries that have a very substantial interest in U. S. imports of textile goods because of an urgent need to sell their products into foreign markets. The urgency arises out of the desire to earn foreign exchange with which to purchase much needed goods from abroad that cannot be obtained in the absence of these foreign exchange earnings.

Standing in a unique position is Japan, the second or third largest foreign customer of the United States, and the largest importer of raw cotton. Japan is a nation with an unbalanced economy, lacking naturally the raw materials and many other goods needed to support itself. It must export in order to import the goods that are basic to its survival. Japan has been an important textile exporter to the United States for almost 30 years; and despite its markets elsewhere, needs the United States as an outlet, especially since some European markets have been virtually closed to Japanese goods. About 15 percent of Japan's cotton textile exports have been shipped to the United States in recent years. Conversely, the United States needs Japan not only as an ally, but as a customer for many commodities, not the least of which is raw cotton. The Japanese textile industry has much at stake in U. S. imports.

A more recent supplier of textiles to the United States is Hong Kong. The flight of capital and population from mainland China contributed to Hong Kong's unique economic position, although capital and know-how from other sources helped expand the textile industry in more recent years. The influx of refugees has depressed the labor market, consequently labor costs are low compared with Western and even Japanese standards. Against this background, Hong Kong has built a textile industry and become a textile exporter since the close of World War II. Although Commonwealth countries are of primary importance as customers, Hong Kong also looks to

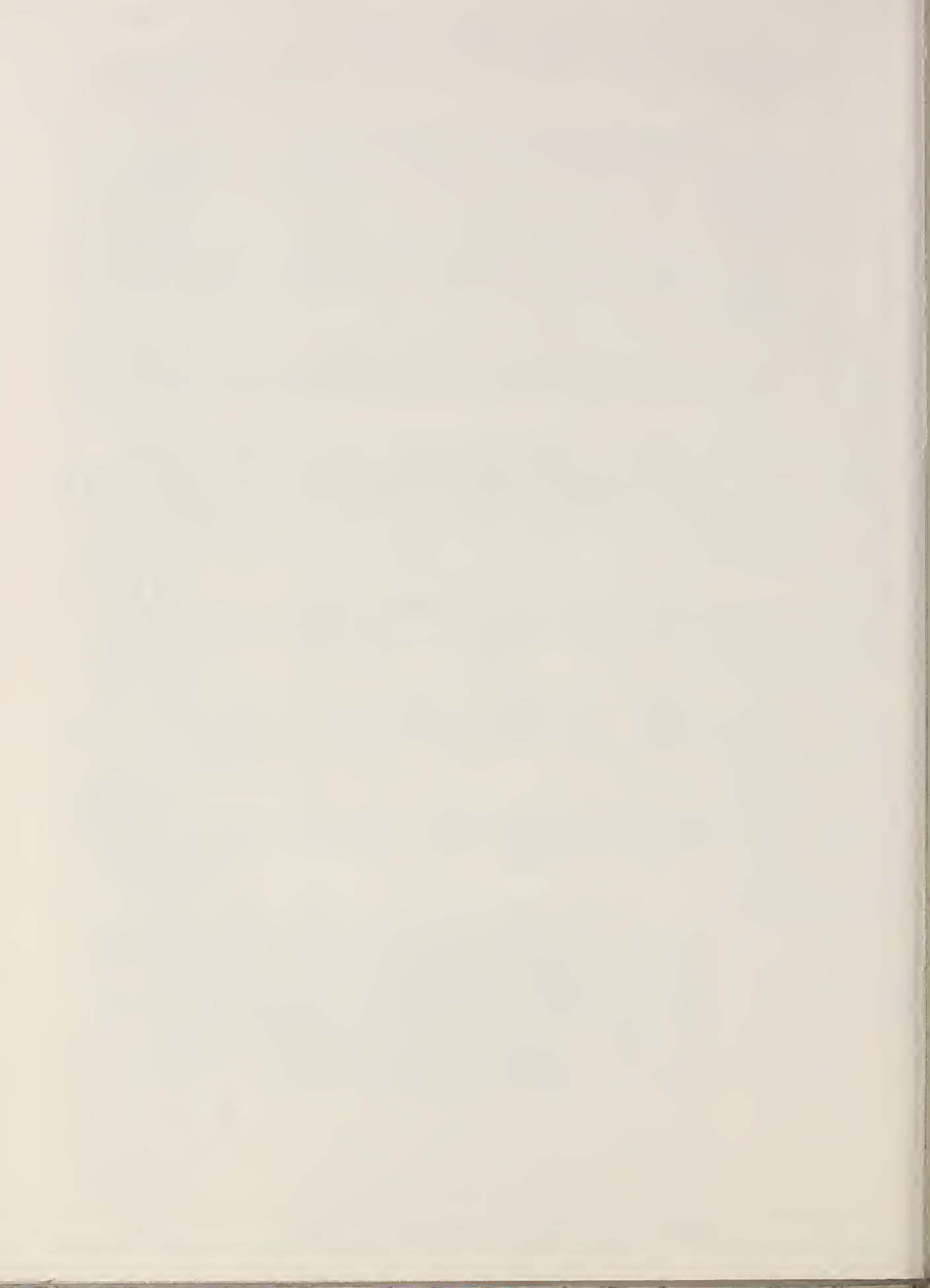
Table 3--- Cotton textiles 1/: United States imports from major suppliers 2/
value, calendar years, average 1934-38, annual 1954-1960

Country	Average 1934-38	1954	1955	1956	1957	1958	1959	1960
	Million dollars	Million dollars	Million dollars	Million dollars	Million dollars	Million dollars	Million dollars	Million dollars
Japan	8.9	23.1	59.7	83.9	65.8	71.4	76.8	73.1
Hong Kong	3/	.1	.4	.7	5.8	17.3	45.8	63.5
Philippine Republic	4.7	12.5	13.7	13.1	11.3	10.6	12.0	13.3
Italy	2.6	5.3	8.0	8.5	8.6	8.3	10.8	10.4
India .....	.2	.3	.6	1.3	.7	.9	4.4	8.7
United Kingdom	6.6	9.0	10.4	12.0	10.0	10.1	10.1	8.6
France	2.9	5.4	6.6	5.6	5.6	4.5	5.7	8.6
Portugal	3/	.1	3/	3/	.1	.3	1.0	8.6
Germany, West	4/3.7	3.0	4.3	6.3	5.8	6.4	7.2	8.4
Spain	3/	.1	.1	.3	.3	.4	1.6	8.4
Switzerland	1.7	5.9	6.1	6.2	5.5	6.0	7.1	8.0
Egypt	3/	.1	.2	.4	.5	.3	.4	6.9
Belgium	3.3	5.5	6.2	6.0	6.7	5.2	6.3	6.3
Taiwan	---	---	3/	---	3/	.1	2.0	3.6
Korea	---	.3	---	---	3/	.8	1.4	2.3
Okinawa	---	---	---	---	---	.3	1.1	2.2
Pakistan	---	---	---	.1	---	---	.9	2.0
Israel	---	.3	.6	.8	1.1	1.5	2.1	1.9
Netherlands .....	.5	1.2	1.6	2.2	1.8	2.0	1.9	1.8
Austria .....	.4	.9	1.0	1.4	1.3	1.4	1.5	1.7
Other	4.2	3.1	4.3	5.9	5.8	2.3	2.4	5.2
Total	39.7	76.2	123.8	154.7	136.7	150.1	202.5	253.5

1 Includes all cotton semi-manufactures and cotton manufactures, as reported by the Bureau of the Census, except cotton waste and other non-textile items in these sub-groups; does not include certain miscellaneous textile items containing cotton, such as body supporting garments, elasticized fabric, rubberized cloth, waterproof cloth, coated and filled cloth, machine belts and belting which are not included in these sub-groups by the Bureau of the Census.

2/ Major suppliers were selected on the basis of the twenty largest in 1960.

3/ Less than \$50,000. 4/ Pre-war Germany. Source: F.T. 110, U.S. Imports of Domestic & Foreign Merchandise.



the United States as an important market for textiles; and the United States looks to Hong Kong as a Western-oriented outpost on the edge of a communist domain, and as a good market for many U. S. products.

Some of the less developed countries of Asia have recently become important textile suppliers to the United States, particularly Korea, Taiwan, the Philippines, and Pakistan. The development of a textile industry in such countries has been one of the first steps away from a completely agrarian economy. In practically all such countries, textile capacity in excess of effective demand has been developed; this expansion has been justified in government and business circles on the basis of foreign exchange earnings of textile exports.

India, Spain, Portugal, and Egypt have also recently expanded markets in the United States. While textile production, and textile exports are not new to these countries, the volume in which they have recently entered the U. S. market is phenomenal. Again, there is productive capacity in excess of effective domestic demand. Exports therefore may represent the difference between a profitable and an unprofitable enterprise to the producer in these countries, and exports are often an urgent objective of their governments as well. The United States maintains a serious interest in the stability of these countries; and to them, the United States has of late become an important outlet for a part of their textile production.

So you can readily see that the complexity of the "textile import problem" is as real as it is apparent. It is perhaps because of these many legitimate but conflicting interests that the textile import problem has defied solution in the past. At one extreme are opinions that with Administrations committed to a policy of trade expansion, universal tariff reductions were in order and any protectionist moves were intolerable. Others contend that within the framework of a liberal trade policy, reductions in most tariffs, stability in some, and increased restrictions in others were compatible. It has also been argued that the general objectives of American trade policy should not be considered impaired even though some form of protection is granted the textile industry, which is suffering from technological changes, rising foreign competition, and changing patterns of consumption. Within U. S. Government circles, many of these points of view are represented.

The Buildup of the Problem

Volume, Source, and Types of Goods Imported.-- Ten years ago, when many of the world's textile exporting countries were still recovering from World War II, U. S. imports of cloth and made-up goods of all fibers were a negligible proportion of domestic production. But this situation has gradually changed, so that in the intervening years imports of certain textile products have assumed greater and greater proportions of the market for these products in the United States.

Cotton textiles, amounting to about 60 percent by volume and about 40 percent by value in 1960, are the largest single category of textile imports. Before the rise of Japan as a supplier to this market in mid-1930's, U. S. imports of textile products were concentrated on specialty items rather than the full range of textile goods. In the field of cotton textiles, these specialty goods included such items as sewing thread from the United Kingdom; tapestries from Italy and Belgium; household linens from the United Kingdom, and fine, bleached, and printed goods from Switzerland and the United Kingdom. The cotton equivalent of imported cotton textiles compared to U. S. mill consumption of cotton averaged about 2 percent annually during the 1934-38 period, less than one percent from the close of World War II until 1953, 2.5 percent by 1956, 4.0 percent by 1959, and about 6.0 percent in 1960. It is the development of this situation that we wish to explore, and in so doing we must turn to consideration of the role of Japan in this picture, since it is worthy of special note.

The Role of Japan -- Special Problems and Special Solutions.--- About three decades ago, our traditional imports of cotton specialty fabrics were overshadowed by the rapid expansion of imports from Japan, which rose from less than one million yards against our total imports of around 30 million yards in the years 1931 and 1932 to more than 7 million yards against the total of 40 million in 1934. From 1935 to the outbreak of the war in the Pacific in 1941, more than 70 percent of the volume but only 35 percent of the value of our cotton fabric imports came from Japan. These fabrics consisted of the "bread and butter" items of the cotton textile industry, the unglamorous items sold in volume upon which mills depend for their basic operation. They were priced considerably below domestically manufactured goods, and also below the prices of other countries' exports to this country. The average import value per square yard of goods coming from Japan was a surprising 4 to 5 cents! This does not mean that goods from Japan were selling for 15 to 25 percent of the price of comparable goods from other sources. Japanese goods for the most part consisted of "low-end" merchandise, while European sources generally supplied high quality specialty goods, such as the permanent finished organdies from Switzerland, and the printed sheers from England. Of course, World War II disrupted all trade with Japan and the pattern was broken.

After World War II, Japan gradually developed again a cotton textile market in the United States, but with goods of higher quality than in the prewar era. Compared to 1934-38 imports of cotton textiles from Japan of about \$10 million annually, postwar trade rose to around \$12 million in 1951 and 1952, and to almost \$60 million in 1955. This increase was accompanied by marketing practices, which led the U. S. industry to fear Japan's ability to disrupt the domestic market. Accordingly, the U. S. industry began to seek protection by various means -- legislation was enacted in several states which discriminated against Japanese textiles; boycott movements appeared; escape clause actions were initiated before

the Tariff Commission in the case of velveteens, ladies' blouses, (which were available at retail prices of \$1.00), gingham, and pillow cases; and legislation was introduced in the Congress which, if it had been enacted, would have imposed quotas on imports of Japanese textiles.

In an attempt to mitigate this rising protectionist tide in the United States, the Japanese cotton industry unilaterally imposed and enforced quotas on exports to the United States for cotton fabrics and blouses. The fabric quota, with separate limitations for velveteens, print cloths, and ginghams, totalled 150 million yards, and the blouse quota 2.5 million dozen for the year 1956. As the year 1956 unfolded and Japanese textiles, especially the uncontrolled items, continued to be imported at unprecedented rates, the U. S. industry continued to press the U. S. Government for action. As a result, the Government worked with representatives from Japan in an effort to develop a mutually satisfactory quota system to cover all categories of cotton textile imports for the year 1957. A so-called "voluntary" agreement was evolved that called for a quota of 235 million square yards. It included made-up goods, knit goods, and other cotton textile products, as well as cotton piece goods. This agreement has undergone a series of revisions, the latest in September of this year.

Other Countries after the "Voluntary" Agreement.-- The institution of the "voluntary" export program on cotton goods by Japan in 1957, the high level of demand in the United States, and the effective control of the volume of goods from the major supplier to the United States provided the environment for increased imports from other sources. As a consequence, beginning in 1957, cotton textiles came into the United States in unprecedented volume from countries that were not previously important suppliers on the world market. Imports from these sources totalled \$3.6 million in 1956, and four years later had risen to \$108.1 million, more than 40 percent of total cotton textile imports, although Japan continued to maintain the position of leading supplier. These newer suppliers to the U. S. market were, in order of importance in 1960, Hong Kong, India, Portugal, Spain, Egypt, Taiwan, Korea, Okinawa, Pakistan, and Israel. And so you can readily see what gives rise to the charge by the Japanese that their self-restraint has benefited their competitors without relieving the pressure of imports on the U. S. market.

From this side-trip to Japan and other suppliers, let us return to the larger picture of U. S. cotton textile imports from all sources. In the period 1934-38, they averaged \$39.7 million annually; in 1954, they totalled \$76.2 million; in 1955, \$123.8 million, and in 1960, they reached \$253.5 million. Of course, during this period, there has been a considerable change in the value of the dollar, but even in terms of constant dollars, imports have more than quadrupled since 1934-38.

The cotton equivalent of 1960 imports represented about 6.0 percent of domestic mill consumption. Imports of some items represented a much higher ratio to production of those items in the United States than others.

For example, in 1960, very small quantities of hose and men's and boy's undershirts and briefs were imported, but should the consumer have purchased carded gingham garments or carded gingham piece goods, chances would have been better than fifty-fifty that the fabric would have been imported. While carded gingham represents an extreme case, the incidence of imports against production was very high for certain other fabrics and some types of made-up goods such as handkerchiefs, table damasks, certain sport clothes, and other wearing apparel. Certain classes of cotton goods showed very large increases in import volume from 1959 to 1960. This was particularly true of cotton yarn, for which imports expanded from 1.5 million pounds to 17.2 million pounds, and cotton fabrics, which rose from 62.3 million pounds to 123.3 million pounds. In the cloth category, the increases were largely in cotton grey goods, which were imported to be finished in this country. Dress shirts, blouses, blouses and skirt sets, and robes also showed very large increases in the made-up goods group. Statistics show that in 1960, for the first time in 45 years, imports of cotton products exceeded exports.

Recent Attempts to Meet the Problem

Now that we have looked at the kinds and volume of textile trade in which the United States has been engaged, in order to get this picture into perspective, let us turn for a few moments to a number of U. S. Government and industry actions relating to textile problems during the course of the past few years. A bit of this kind of history will help you evaluate what has been happening in 1961 as well as what might be expected in the future.

Section 204 of the Agricultural Act of 1956.-- The mood of Congress during the year 1956 concerning imports was reflected in a new legislative provision, section 204 of the Agricultural Act of 1956. This section, known as "Agreements Limiting Imports" authorized the President to negotiate with representatives of foreign governments in an effort to obtain agreements limiting imports of agricultural commodities or products manufactured therefrom, including textiles. The President was also authorized to issue regulations governing the entry or withdrawal from warehouse of any commodity to carry out any such agreement. This law affords the main legal basis for the textile agreement negotiated in 1961 to which later I will give further attention.

The First Pastore Committee Hearings and Reports.-- Another manifestation of government interest came from a Senate resolution of the 2nd session of the 85th Congress that authorized a subcommittee of the Senate Committee on Interstate and Foreign Commerce "to conduct a full and complete study of all factors affecting commerce and production in the textile industry of the United States" including the extent, nature, and causes of the decline in interstate and foreign commerce in textile mill products. Throughout the second half of 1958, extensive hearings were conducted by this special Senate subcommittee, known as the Pastore Committee, and a report was issued in early 1959. The Committee recommendations that

bear directly upon foreign trade were (1) that in the administration of our foreign trade program, every effort be made to channel imports into those markets which can most easily absorb production from abroad, and that an effort be made to avoid further losses to the domestic textile industry; and (2) that quotas by specific categories be established which would permit foreign producers of textile products to sell in our markets within limits that will not further endanger existing textile capacity.

The National Cotton Council Petition and Its Disposition.-- Against this background, in June 1959 the National Cotton Council filed a petition to the Secretary of Agriculture for "appropriate action" against injury to the Department's cotton programs from import competition under Section 22 of the Agricultural Adjustment Act of 1938 as amended. After preliminary investigation, the Secretary advised the President that there was reason to believe that cotton in articles containing cotton was being, or practically certain to be, imported into the United States under such conditions and in such quantities as to render or tend to render ineffective or materially interfere with the Department's export program for cotton and cotton products. This conclusion was based upon the premise that the export payment, equivalent to eight cents per pound on cotton and the cotton content of cotton products, was, in effect, a loss to the Commodity Credit Corporation to the extent that cotton in the form of cotton products was imported into the United States, and that the purpose of the raw cotton export program was thereby impaired. The President then directed the Tariff Commission to conduct hearings to determine whether a fee equivalent to the per pound export payment rate in raw cotton was necessary to prevent such interference.

After extended hearings and the filing of briefs and counterbriefs by opposing groups, the Tariff Commission ruled in June of 1960 that cotton textile imports were not jeopardizing the export program of the Department. The President concurred in this finding.

The Second Pastore Committee Hearings and Report.-- In February 1961, the Pastore Committee again held hearings in order to bring the findings of the earlier investigation up to date. In its supplementary report issued in March of this year, the subcommittee noted its "disappointment that so few of the earlier recommendations had been acted upon", and reiterated its recommendation that "quotas on textile mill products, and on garments and apparel, and on man-made fiber staple, filaments, and filament yarn, be established by country and by category of product". The subcommittee report further noted that imports into this country should be allowed to increase only as the market in this country grows.

The interest of consumers was a subject for special comment in the subcommittee report. The report expressed the opinion that, in view of the market structure in textiles which is characterized by aggressive price competition, the consumer would not suffer from the regulation of

international trade in textile mill products. The subcommittee envisioned that a substantial volume of foreign textile products would be permitted to enter the country under the proposed quotas and that the lower prices of these goods compared to domestically-produced textiles would "continue to affect domestic prices as they have in the past".

The President's Seven-Point Program.-- Further recognition of the textile industry's problems came from the Executive Branch of our Government, when, on May 2 of this year, the President announced a seven-point program of assistance for the cotton textile industry. The program encompassed the following points: An expanded Government program of research; a review of tax depreciation allowances on textile machinery; assistance in financing modernization of equipment; a study aimed at the elimination or offset of the adverse differential in raw cotton costs between domestic and foreign textile producers; and assistance to industries threatened with serious injury from imports. In addition, the President directed the Department of State to arrange for calling an international conference of the principal textile exporting and importing countries for the purpose of seeking an international understanding that would provide a basis for trade that would avoid "undue disruption". The President also pledged careful consideration of any application by the textile industry for action under existing statutes.

The Petition of the Industry to the OCDM.-- The textile industry responded to this encouragement on May 15 by the filing of an application with the Office of Civil and Defense Mobilization for an investigation, under Section 8 of the Trade Agreements Extension Act of 1958, to determine whether textiles and textile manufactures were being imported into the United States in such quantities or under such circumstances as to threaten to impair the national security. Ten organizations representing practically every segment of the U. S. textile industry for the first time joined in a united effort. As of this week, this investigation is still pending with the Office of Emergency Planning, as OCDM is now called.

Geneva Conferences.-- As one aspect of the President's Seven-Point Program, the United States Government requested the GATT to call a conference of textile importing and exporting nations to work out some cooperative and constructive action relating to world trade in textiles. The objective of the 16-nation conference held in Geneva in July of this year was to deal with trade problems in such a way as to provide growing export opportunities for textiles in a reasonable and orderly manner. Short term arrangements were agreed upon which were designed to increase access to markets where imports are at present subject to restriction, to maintain orderly access to markets where restrictions are not at present maintained, and to secure from exporting countries, where necessary, a measure of restraint in their export policy so as to avoid disruptive effects in import markets. A safeguard for importing countries contained in the agreement provided that in a disruptive situation importing countries could call for restraint by an exporting country in

any of the 64 categories of cotton textiles at levels not lower than that prevailing in the twelve-month period ending June 30, 1961. Failing to obtain agreement under such circumstances, the importing country could take unilateral action.

A Cotton Textile Committee was established under the long-term arrangements and charged with the responsibility of making recommendations by April 30, 1962, on a long-term solution to the problems in the field of cotton textiles based on the guiding principles of the agreement. Late in October, a provisional committee met in Geneva to consider the long-term arrangement and the means of accomplishing the objectives. The Committee considered measures for liberalization by countries still restricting imports; provisions relating to market disruption; bilateral arrangements; provisions to prevent circumvention by non-participating countries, transshipment, and substitution of directly competitive materials; and the duration of the arrangement, which had been suggested for periods varying from three to five years. For the purpose of carrying out the details of these arrangements, a technical subcommittee and a statistical subcommittee were established.

New Bilateral Agreement with Japan.-- The five-year "voluntary" agreement that Japan undertook beginning on January 1, 1957, with respect to exports to the United States, is scheduled to expire at the end of this year. Within the framework of the Geneva arrangement, this bilateral agreement was renegotiated by the United States and Japan late in the summer. At 275 million square yards for the year 1962, the new arrangement provides for a 17 percent increase over the original quota. It also provides for a number of specific quotas for "sensitive" items and for certain other mutually acceptable adjustments.

Rapid Depreciation of Textile Machinery.-- On October 11, the President announced a new depreciation schedule by the Internal Revenue Service, whereby textile companies will be allowed to write-off the cost of certain new textile machinery over a shorter period than before. Much of the machinery will be written off for tax purposes in 15 years or less compared to the previous provisions of 25 years. The White House announcement indicated that the move "will be of significant help to the industry in enabling it to modernize, meet foreign competition and provide jobs". This, as you may recognize, was one of the provisions of the President's Seven-Point Program.

And now, we are just about up-to-date with the fast moving events in the field of international textile trade from the standpoint of the United States. We need to examine briefly what trends might be indicated in 1961, and what the future may hold.

Cotton Textile Imports in 1961

From data for the first half of 1961, it appears that cotton textile imports have fallen off about 30 percent from the all-time highs of 1960. Much of this decline is probably attributable to the recession in the

United States. *This falling off points up the dependence of imports upon the general well-being of the economy. A disproportionate share of the reduction seems to be in cotton fabrics and mill-finished items, such as pillow cases, dish towels, handkerchiefs, and table damasks. Knit goods imports appear not to have sustained the same degree of reduction as other types of cotton goods. The largest relative decreases -- about 70 percent or more from the 1960 levels -- have been sustained by Egypt, India, Korea, and Spain. Imports from Hong Kong and Portugal dropped about 40 percent. In contrast, it is estimated that Japanese shipments dropped only 10 percent from 1960 levels. This would seem to indicate the more enduring nature of U. S. textile trade with Japan compared to our trade with the newer supplying countries.

Possibilities in the Future

In view of the many complications yet pending that are presently under consideration and that are certain to affect the long-term trend of U. S. foreign trade in cotton textiles, forecasting in this field is fraught with danger. It is fairly certain, however, that the strength of the domestic market is of overriding importance to the expansion or contraction of textile imports. Also of great significance is the price relationship between domestic and imported goods that will prevail in the U. S. market in the future. This price relationship as it presently exists could be affected by a number of factors, including changes in tariff structures or other import fees, and increased costs in the newer producing countries. The American consumer will also write a part of this history. Unless political considerations dictate otherwise, a large volume of imports will flow into this country as long as consumers are willing to buy them.

The actions of the U. S. Government to date may have provided the clue to the future. The basic principles and objectives of both the short-and-long-term multilateral arrangements set the goal of dealing with trade problems "in such a way as to provide growing export opportunities, but in a reasonable and orderly manner." It should also be remembered that the new bilateral agreement with Japan allows for a 7.5 percent increase over the quota that Japan established for the current year, although the Japanese have expressed considerable concern over their ability to fill this quota in view of the number of individual sub-quotas that were established within the total. From these two negotiated positions, it would appear that increased U. S. imports might logically be expected to follow.

Whichever way the trade winds blow, and whatever influences them, it is easy to see that the problems related to U. S. textile imports will continue to occupy the minds of both economists and public officials for a long time to come.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

FOOD DISTRIBUTION PROGRAMS
of the
DEPARTMENT OF AGRICULTURE

Talk by Isabelle M. Kelley, Food Distribution Division
at the 39th Annual Agricultural Outlook Conference,
Washington, D. C., 3:30 P.M., Tuesday, November 14, 1961

In a country which is characterized by an agricultural abundance, it is a natural development that efforts should -- and would -- be made to see that needy and deserving people have more of the food they require to fill their stomachs, to promote their health, and to maintain their productive efficiency.

This makes good sense.

It is morally right.

It is good business. The unmet needs of these needy people are likely to be translated into "economic surpluses" that seriously interfere with the efficient operation of our commercial food marketing system. And, it is this commercial system upon which we basically rely to supply the great bulk of our food demands, to register our preferences as consumers, and to pass back to farmers an equitable return for their productive efforts. Where the Federal and State governments step in -- whether in production, marketing or distribution -- it is to enhance the working of the commercial system in our farm and food economy.

Finally, and practically, charity begins at home. If we expect public support for our "Food for Peace" efforts in allied and uncommitted countries throughout the world, we cannot ignore the situation of people here at home who need, but cannot afford, more and better food.

I do not mean to imply that underconsumption of food in this country stems solely from economic factors -- nor that this is the only framework within which the Department's food distribution programs operate. You people know much better than I, that we have seasonal abundances that are hard for our marketing system to handle with as many benefits as possible to both the buyer and the seller. Even among moderate and higher income families, food faces serious competition from the almost endless variety of nonfood items that command, even demand, our attention and our dollars. Among all income groups, we have families who do not realize the importance of good diets. We have families who just don't make good selections. We have the crash dieters.

We try to give attention to all of these situations in the operation of our Food Distribution Programs. But, where Federal financial assistance is involved, it is the needy child or the needy family that the Department has foremost in mind -- and rightly so. These people -- by and large -- are the ones with the greatest potential for increased food consumption. They also are the ones where dollars are the most important limiting factors to dietary improvement and to farm market expansion.

There is hardly anything new under the sun and this certainly applies to our Food Distribution Programs. Direct action in this field on the part of the Federal Government began during the depression of the 1930's and has -- to a greater or lesser degree -- continued since that time. However, more recent economic and social developments -- including the increasing awareness of the special problems faced by the governments and people of our so-called depressed areas -- have led to more intensive efforts to get more of our food to more of our people.

The Department's food distribution programs are not self-contained nor self-sustained. They are not a cure-all, by any means. They build upon the constant and long-range efforts to increase the efficiency of our production and marketing system; they recognize the need to make a constructive use of food that finds its way into Government inventories or ownerships; they rely upon broader efforts in the field of nutrition education for consumers; they are designed to supplement general welfare and public assistance programs.

Specifically, the term "food distribution" has come to mean a series of inter-related action programs which are designed to improve national dietary levels and to expand current and future markets for food. The activities include:

1. The Plentiful Foods Program - under which we work with producer and marketing groups to promote the sale and use of seasonally and other abundant foods.
2. The National School Lunch Program - designed to assist elementary and secondary schools to serve balanced and moderately-priced lunches to attending children.
3. The Special Milk Program - inaugurated in late 1954 to help schools, camps, orphanages and other nonprofit institutions make more fluid milk available to more children.
4. Direct Distribution - where Federally-owned foods are donated to schools, charitable institutions, and needy families through the facilities of State and local governments.
5. Pilot Food Stamp Projects - a recently inaugurated operation in eight sections of the country to test out another approach to increasing food consumption among needy families.

It is the purpose of this paper, now, to make some comments on each of these five programs -- including accomplishments and current areas of emphasis. Following this, there will be a summarization to pull together the purpose of these individual programs in the light of our current agricultural and nutritional situation. I hope you will relate this discussion of over-all food distribution objectives and procedures to your own experiences at the State and local level -- with a view toward further clarifications during the question-and-answer period.

The Plentiful Foods Program

The Department of Agriculture and the Extension Services of the various States have long undertaken, or cooperated in, programs to provide consumers with information on food supplies and prices. The Plentiful Foods Program of AMS is a part of this broad undertaking. It is, in fact, a direct outgrowth of a World War II effort to manage civilian food supplies by encouraging consumers to shift from rationed and other scarce foods to those in more abundant supply. I am sure that many of you recall features of that wartime program such as "Victory Food Specials" or "No-Point Low-Point Foods."

The specific purpose of the program is to increase the commercial marketing of foods that are in peak seasonal supply or are otherwise plentiful. It is built upon the principle that advertising pays. It attempts to accomplish its purpose by mobilizing, on a voluntary basis, the merchandising and informational resources of food trade and allied groups in support of the sales and promotion efforts of producer groups. It is more concerned with shifting consumer demand in line with current market availability than with achieving a permanent increase in the market and consumption of a particular food. But it can have important by-product effects in the latter area by introducing the food to more consumers generally -- or into new geographic areas.

A great deal of emphasis is placed upon obtaining the cooperation of food retailers, the food editors of informational media, and food and nutrition leaders who work directly with consumer groups. Retailers can do much to influence consumer choices through their advertising and in-store promotions. The food editors of newspapers, magazines, radio and television continually supply homemakers with information and can do much to create interest in any particular food. And there are an infinite number of ways in which those who work directly with homemakers can tie into this over-all effort. In this connection, I should like to make special mention of the cooperative and profitable working relationship we have with the Extension Service.

One of the continuing activities under our Plentiful Foods Program is to provide information on foods in need of merchandising attention. Each month, a national and five regional Plentiful Foods Lists are issued to cooperating trade and information groups. The public feeding industry -- hotels, restaurants, industrial feeders -- receive an especially adapted version of these Lists. Special selections within the total list are made for school lunch programs.

A great many people and agencies, both within and outside the Department, are involved in selecting the foods to be included in the Lists because we want them to be as reliable as possible. And, we want to stay away from strictly luxury items.

However, there is no precise line between luxury and non-luxury items. And, because we are concerned with reaching all consumers, the List is not designed as a guide to the best buys, nutritionwise, for those families with the most limited food budgets. This does not mean that the List can't be useful to those of you who are primarily concerned with helping low-income families. Rather, it requires that you use it on a selective basis, taking into account your audience and market conditions in your area.

The National School Lunch Program

Federal financial assistance to school lunch programs began in the early 1930's when surplus foods were first donated to schools.

Much earlier than that, the Department -- and especially the Extension Service -- had been active in this field. Prior to World War I, charts had been prepared for posting in school lunchrooms. They depicted the elements of a balanced and wholesome school lunch. In 1916, a Farmers Bulletin issued by the Department said each school lunch should include selections from the following groups: Protein-rich foods, including milk; cereal or starchy foods; the fatty foods; vegetables and fruits, and simple sweets.

There we had the prototype of our present-day Type A school lunch. The writer of the Bulletin also understood children -- recognizing that you must remember a child's sweet-tooth as well as his dietary needs.

Now, this activity, authorized by the National School Lunch Act of 1946, encompasses a broad program of assistance to participating schools. Yet, we still hear from people who feel that the Department's interest in school lunch programs is still dominated by a desire to find a home for some food it owns. I should like to address myself at this point to those of you who meet people with this attitude.

First, each participating school agrees to serve a lunch meeting our Type A pattern. This lunch includes, as a minimum, a protein-rich food, a generous serving of fruits and vegetables, bread and butter or fortified margarine, and one-half pint of milk. Federally-donated foods can be used to fulfill these requirements -- we encourage schools to make maximum use of them -- but only within the framework of that Type A pattern.

Second, most of the food used in the school lunch programs receiving Federal assistance are purchased locally by the schools from local suppliers. For last year, the following table shows the relative importance of locally purchased and Government-donated foods in the National School Lunch Program:

<u>Sources of Food</u>	<u>Million Dollars</u>
<u>Local Purchases</u>	
Financed by Federal funds	93.7
Financed by State and local funds	<u>481.3</u>
Total	575.0
<u>Government-Donated Foods</u>	
Purchased for the program	61.1
Obtained from other Department supplies	<u>71.6</u>
Total	132.7
Grand Total	707.7

Here, as in other programs, we do not rely upon financial assistance alone to bring about an adequate program. Working with and through the educational agencies of the various States, which are responsible for the actual operation of the program on a grant-in-aid basis, we encourage and assist in a broad program of technical assistance to participating schools. This involves, among other things, the development and publication of food use and management materials and workshop training programs for local school lunch workers. Many of you have worked with State educational agencies in this area and you have made a significant contribution to the Department's total school lunch effort.

Currently, the National School Lunch Program is in operation in some 64,000 schools throughout the country. These schools represent about two-thirds of our elementary and secondary school enrollment. On a typical day, about 13.5 million children eat the Type A lunch -- about one-third of the children enrolled in schools.

Why not more schools and why not more children in those schools where the program is in operation? The lunch program is, of course, expanding each year at a rate in excess of the rate at which school enrollments are increasing.

Most of the schools which are not in the program are small elementary schools in relatively small population centers. Lack of food service facilities is a principal limiting factor. This also is true for the elementary schools in many cities where schools were developed on a neighborhood basis, with children going home for lunch. Finally, there are schools which can, and do, operate a lunch program without Federal cash assistance.

With respect to the level of participation within schools which do receive Federal assistance, the answer is more complex. Throughout the school year, many more than 13.5 million children eat the Type A lunch at one time or another. Participation is quite apt to be higher on rainy days, when favorite menus are served, when mothers will not be home to prepare lunch. Many other factors influence school lunch participation: Meal quality, price, teacher interest, speed of service, attractiveness of the lunchroom, etc.

The level of participation in secondary schools generally is lower than in elementary schools. Here, we are dealing with a group of young men and women who are beginning to assert their independence and may tend to resent the "plate lunch" because they feel they are being told what to eat. To combat this tendency, we encourage high schools to offer some free choice within the Type A pattern. We need to do more in this field.

We have become increasingly aware, however, that many schools in economically needy areas were facing a special problem. The National School Lunch Act requires that children unable to pay the full price of the lunch be served at a reduced price or free. But no lunch can be served free of cost. Where the child does not pay, his lunch must be financed out of the Federal payment, State or local sources, or the payments of other children. Far too frequently, we discovered, this wasn't enough in a school that needed to serve 30, 40, or 50 percent -- or even more -- of its lunches free.

This matter was brought to the attention of the Congress during the course of our 1961-62 appropriation hearings. As a result, the Congress authorized the use of \$2.5 million of special commodity assistance to help "schools which because of poor local economic conditions (1) have not been operating a school lunch program or (2) have been serving free or at substantially reduced prices at least 20 percent of the lunches to children."

We view this first year's operation as an experiment in techniques. We are directing the use of the \$2.5 million of special commodity assistance to those schools that have not been able to finance a school lunch program. For those schools which are now in the program and are serving a large percentage of free meals, we are working with States to give extra assistance to schools out of the funds and commodities regularly made available under the annual appropriation.

Especially needy schools may now be reimbursed as much as 15 cents for each Type A meal they serve. The regular maximum payment is 9 cents. But this total will need to be used on a selective basis for, currently, cash assistance funds average about 4 cents nationally for the Type A lunch.

Nonetheless, we are hopeful that this new type of assistance will help bring the benefits of the School Lunch Program to more of our children.

The Special Milk Program

This distribution activity grew out of a section of the Agricultural Act of 1954 which provided a two-year authority to use funds of the Commodity Credit Corporation to increase the use of fluid milk in schools.

From time to time, that authority was extended and the program was also enlarged to include nonprofit summer camps, orphanages, and other child-care institutions. The Agricultural Act of 1961 provides continuing authority for this program and shifts the source of funds from the Commodity Credit Corporation to regularly appropriated funds.

Participating schools and institutions purchase fluid milk from local suppliers and the Federal Government pays a portion of the cost of the milk. Where milk is sold to children, such as in the typical public school, the Federal payment makes it possible to reduce selling prices to children as a means of stimulating sales. Where milk is not customarily sold to children, such as in an orphanage, the institutions use the Federal payments to make more milk available at meal-time or to serve milk at other times during the day.

About 2 percent of the annual non-farm consumption of fluid milk is now accomplished under this program. (That amount is in addition to a similar quantity that is used under the National School Lunch Program.) Studies of the program have demonstrated the effectiveness of the program, which we now estimate is available to at least 3 out of every 4 children in school.

In the fall of 1955, the Food Distribution Division canvassed 22 centralized school systems with a total attendance of 950,000 students. Milk consumption in October of that year was 67 percent greater than in the same month in 1953,

the year before the Special Milk Program was started. A nationwide survey in 1957 reported substantially higher per-pupil rates of milk consumption in those schools which were participating in the school lunch and special milk programs.^{1/}

A more limited study -- in 100 schools in States in the Northeast -- showed that the effect of the program was to increase the number of milk drinkers at school and to increase per-pupil levels of milk consumption. Increased consumption at school did not appear to result in lowered milk consumption at home. ^{2/}

In this program, too, we are attempting to reach more needy schools and children. For the first time this year, economically needy schools which have not had a milk or lunch service are eligible to receive special assistance. It will be possible for such schools to receive up to the cost of the milk served free to needy children. The regular maximum amount of assistance is 3 cents per half pint for those schools that do not serve Type A lunches.

Direct Distribution

For more than 25 years, authority has been available to the Department of Agriculture to donate food acquired under price support and other market stabilization programs to underconsuming groups within this country.

It was first provided in emergency farm and relief legislation of the early 1930's and subsequently, in Section 32 of the Act of August 24, 1935. Section 416 of the Agricultural Act of 1949 provided specific authority to donate foods acquired under price support programs and this authority was further liberalized in Public Law 480.

Distribution of these donated foods is accomplished outside of normal trade channels. The Federal Government delivers the food to States. State and local governments arrange for the subsequent handling and storage and for the actual delivery of the foods to the final recipient.

Currently, nearly 24 million people in this country are receiving these Federally donated foods. This total includes 16 million school children (these foods may also go to nonprofit school lunch programs which do not receive Federal cash assistance), and about 1.5 million needy people in charitable institutions. Over 6 million people who are members of economically needy families also are receiving help under this program.

^{1/} Milk Consumption in the Nation's Schools, Marketing Research Report No. 284, Agricultural Marketing Service, USDA, November 1958.

^{2/} Milk Consumption by Children, Marketing Research Report No. 408, Agricultural Marketing Service, USDA, June 1960.

I have previously mentioned the use of these foods in school lunch programs. And, it is obvious that these donations can do much to supplement the traditionally low budgets with which many institutions operate. Of special interest, I believe, is the work we do in making these foods available to needy families.

Giving things away is not as easy as it seems to many people. But, judging by the correspondence that comes to the Department, the public would not support a policy that we were not going to try to make more food available to needy people just because it is hard to do well.

First of all, we must have a way to identify the people who need but cannot afford more food. Second, we must try to minimize the possible impact of our donations on regular commercial sales. Third, we must help States and localities to operate efficient but inexpensive delivery systems. Fourth, we must require strict accounting for these foods because they represent Federal dollars.

The responsibility for determining which families get our donated foods is placed in the hands of State and local welfare agencies. In this way, it is possible to take local needs and local conditions into account. A family of five may face quite different situations in trying to live on \$200 a month. One family may be in a small rural town; another may live in a large urban area where rents are much higher.

We do require, however, that the standards States use to determine which families should get this food assistance bear a relationship to the standards they use in their own public assistance program. This does not mean that only public assistance families are eligible. We want these foods to be made available to "marginal" families -- to those, for example, who suffer temporary setbacks when factories close down or during the season when work is not available to the farm laborer who is hired by the day.

The first Executive Order of President Kennedy called for an increase in the volume and variety of donated foods being made available to needy families. This was accomplished by increasing the number of items coming from the inventories of the Commodity Credit Corporation and by making market purchases of certain foods which were in need of marketing assistance.

In December of last year, a total of 3.7 million people in needy family units were receiving donated foods. The retail value of these donations came to about \$3.00 per person per month. Currently, over 6 million people are in the program and the monthly retail value of the donations is about \$6.00 per person.

Along with the increase in the level of food donations, we have stepped up our efforts to help recipients make the best possible use of these foods. Here, again, representatives of the Extension Service are making a very valuable contribution by working with these families -- distributing recipes and menus, holding demonstrations, obtaining newspaper publicity, and participating in television programs. All of these efforts can help the families make wise use of both donated and purchased foods. And, these very practical lessons in nutrition and food management can make them better homemakers even after they no longer need to rely on Federally-donated foods.

Pilot Food Stamp Projects

We are now testing out a different method of increasing food consumption levels among needy families. The program utilizes normal channels of trade and is a variation of a previous program -- called the Food Stamp Plan -- which was operated between 1939 and 1943.

The pilot projects are being operated in eight sections of the country in an effort to test the program under a wide variety of conditions. The areas include the large metropolitan City of Detroit, Franklin County in the coal mining area of southern Illinois, the Virginia-Hibbing-Nashwauk area in the Mesabi iron range in Minnesota, Floyd County in Kentucky, McDowell County in West Virginia, Fayette County in Pennsylvania, San Miguel County in New Mexico, and Silver Bow County in Montana. All of these areas have experienced substantial unemployment in recent years.

Under the pilot program, low-income families exchange the amount of money they would normally be expected to spend for food for stamp coupons of a higher monetary value. For example, a family of four who normally could be expected to spend about \$60 a month for food can exchange that amount of money for perhaps as much as \$90 worth of coupons. The extra \$30 represents the Federal government's contribution to the program. The family can then use the coupons to purchase food at prevailing retail prices at any regular retail store which has been approved to accept the coupons. Only a few food items cannot be purchased with the food coupons -- coffee, tea, cocoa, bananas and packaged imported items.

This is a substantial variation from the 1939-43 Food Stamp Plan under which the participating family could use the additional food purchasing power only for those foods designated as "surplus" by the Department of Agriculture. This change from the old Plan was the result of two factors: (1) Food consumption surveys show that low-income families choose to buy more livestock and dairy products and more fruits and vegetables when their incomes are increased. (2) These are the very items that we want to reach under the program from the standpoint of both diets and farm market expansion. The increased consumption of livestock products, for example, could be an indirect but efficient means of increasing the use of our abundant feed grain supplies.

In September, approximately 138,000 people purchased food coupons. They spent \$1.7 million for coupons and received \$1 million in bonus coupons.

Here, too, we have called upon State and local agencies to help these families make the most of their added food purchasing power. We have been very pleased with the enthusiastic support we have received and the progress, thus far, has exceeded our expectations. And, again, we must make special mention of the leadership shown by representatives of the Extension Service.

Over-all, we have been very encouraged by our experience with these pilot food stamp projects. However, the full effectiveness of the program can only be determined after we receive the results of a series of special evaluation studies.

In each of the eight pilot areas, a survey of the level of retail food store sales was undertaken. A second survey was made this fall to determine the impact of the program on food sales. In two of the eight areas -- Fayette County, Pennsylvania, and Detroit -- detailed pre-program food use data were collected from a representative sample of families, including families with incomes somewhat higher than those of eligible food stamp families. These data will be compared with those from a similar survey conducted this fall after the pilot projects had been in operation for a few months. The Institute of Home Economics will also use these data to evaluate the changes that took place in the diets of families who took advantage of the Stamp Program.

Finally, a series of attitude surveys have been undertaken to determine reactions to the pilot projects on the part of retailers, welfare workers, participants and the general public.

The results of these evaluation studies should be available about the first of the new calendar year.

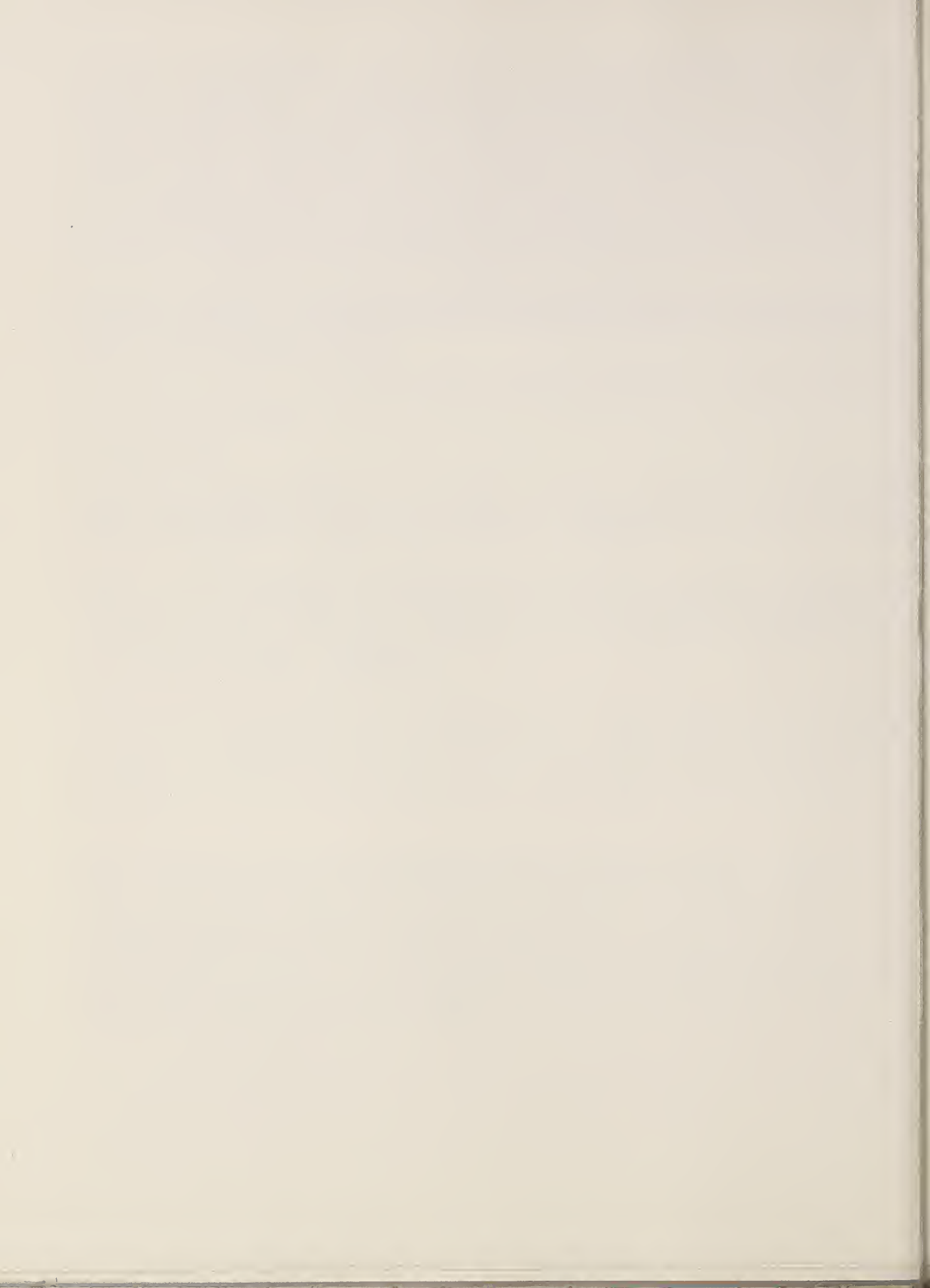
The Summing Up

These are our food distribution activities. By way of conclusion, let us try to sum up these individual efforts in relation to a broad program to gear our agricultural production to expand domestic food consumption.

First, our underconsumption of food results from several factors -- limited budgets, lack of knowledge concerning the importance of good diets, competition from nonfood items, and poor food habits. Our farm production is abundant and we have the resources to produce all of the protective foods we need and still meet our Food-for-Peace commitments.

Each of our food distribution programs uses a different approach in attempting to make more effective use of our food supplies. First emphasis is placed upon our purposes through normal trade channels. But, when it is necessary for the Government to acquire food in order to meet a market problem, we do have an effective way to get maximum quantities of food to people who can make good use of it.

Serving more milk and better balanced lunches at school can help improve the diets of children and increase markets for the important protective foods. Promoting the sales of plentiful foods can help orderly marketing, bring "best buys" to the attention of consumers, and lessen the need for direct Government purchases. Getting more and better food to needy people helps them and helps the farmer too. Finally, effective use of the opportunities these programs present to increase general nutrition knowledge and know-how among underconsumers of food will enhance their total contribution to the wise use of our agricultural resources.



UNITED STATES DEPARTMENT OF AGRICULTURE
Federal Extension Service

IMPACT OF ECONOMIC CHANGES ON THE FARM COMMUNITY
AND ON OPPORTUNITIES FOR FARM YOUTH

Talk by Karl Shoemaker
Division of Agricultural Economics Programs
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 12:30 P. M., Thursday, November 16, 1961

In my assignment today I will deal with the impact of change as it relates to the farm community and many of the adjustments facing this community. An important part of any community is its youth. Hence, a portion of this paper will deal with the changes facing our farm youth.

Impact on the Community

Dr. Stewart has developed very effectively for you some of the changes facing farmers over the next fifteen years. I propose to take a look, with you, at many of the community, economic, and social issues which will need to be resolved by group decisions. These result, not only from the changes that Dr. Stewart has discussed, but also from the changes resulting from the population growth, and particularly, the characteristic urban sprawl and the interspersing of rural non-farm with farm people.

During the past ten years, according to the Census, the average, standard metropolitan area (of which we have 212 in the United States) has had a one and one-half percent increase in population within the city itself (based on the city limits existing in 1950). In the metropolitan area outside of the city limits there has been a forty-four percent increase in population. There is a third statistic of great importance to the farmer who is now located in this mixed community, and that is an eighty-five percent increase in population in the rural areas existing in the metropolitan area but beyond the central city and the suburbs as they existed in 1950. It is in this area where we have the interspersing of the farm and rural non-farm family.

To give you a picture of what these statistics mean, go with me on a trip I made from Dallas to Kaufman County, Texas, 35 miles east. It was a beautiful spring day in late March. The four lane limited access expressway was the pride of Dallas and the joy of Kaufman. The people in Kaufman could be in downtown Dallas in thirty-five minutes, and 2000 of their citizens work in Dallas.

As we passed the Dallas suburbs, the clusters of fifty to one hundred homes on the side of this super highway - built by subdividers or developers - looked beautiful but naked on the slopes. A mile or so of open country between these clusters seem to be the pattern as the developer constantly moves out for cheaper land and attractive building sites.

After about ten miles, this cluster of homes pattern shifted to the individual,

nicely landscaped, new brick home beside the highway, interspersed between the farmsteads. No doubt a Dallas family had bought a little piece of land from this farmer and built his house on it. Oh yes, he also dug a well and put in a septic tank. He could get to town and his job quickly. His children could live in the country. I couldn't help but notice in late March how nice and clear the atmosphere was, how clean the air smelled.

But, remember, these clusters and this brick home are out beyond the suburbs -- it fits the pattern of an eighty-five percent increase in population. There may be as many as ten rural non-farm people per farm person in communities like these. The national average is nearly three to one and close to the metropolitan areas such as this, it is much higher.

Problems or opportunities

Not all of the changes are behind us. Resources for the Future in their 1959 annual report project the magnitude of some to come to the year 2000.

Comparisons of 1959 and the Year 2000

	<u>1959</u>	<u>2000</u>
Population	180 million	330 million
Labor Force	73 "	140 "
Households	51 "	100 "
Productivity per worker	\$7,000	\$15,000
Gross National Product	\$500 billion	\$2200 billion
Government Expenditures	\$100 "	\$500 "
Agricultural Production	\$ 24 "	\$ 43 "
Meat Production	27 billion lbs.	64 billion lbs.
Autos in use	58 million	230 million

From these projections we see that population will not quite double in the next forty years. The labor force just about doubles as to households. Productivity per worker more than doubles as gross national product increases four and a half times and taxes increase five times. Yet the tax burden per dollar earned is projected to be little if any greater than it is today. Inefficiencies in the use of the tax dollar could be magnified five times.

These figures indicate that the demand for agricultural production will be less than double while demand for meat will almost triple.

Yes, we can expect more cars which means finding a place to park for us but more super highways across more farms for farm people.

Looking ahead we can see great changes in our way of living, our local government and the laws regulating our society.

Local government and community services

Community services will be expanded. These will include schools, parks, water, fire, police, health, sewer, transportation, welfare, and recreation facilities. Many of these services will be new to the previously all farm rural community. They will cost money and the problems in providing them will be many.

Schools must be reorganized to handle the increased population. Land must be acquired for extending and widening present roads, new roads, for parks, schools and other public facilities. Taxes and tax structure will be up for serious consideration. Even the form of local government will be changed in many instances. Planning and zoning will get more attention.

May I share with you a few examples of the impact of these changes. Let's go back to Kaufman County and the school question. Doubling the population requires new school facilities. New schools require new revenues - in Kaufman County it required \$22,500 tax base for each child in school. If the Dallas family that moved to the country had two children in school, their \$15,000 home, which was the average cost according to the county agent, provided a third of their required tax base. Where did the money come from to support the other two-thirds of the educational needs of their children? This is in the country; there is no industry here to provide that kind of support. We know where it came from - farm real estate must carry the other two-thirds. The impact of change on the community - the farm people - is rather important in circumstances like this.

A good example of this is in Monmouth County, New Jersey, where a couple of years ago they told me land was worth \$2,000 per acre. This was the price the developer would pay. This is a fairly high price for chicken and truck crop farmers to pay. They also told me that since many nonfarm rural residents moved into this defense area, schools were built, bus lines extended, and other services provided, the taxes on a quarter section of farm land was \$2,000.

Still another example is in Clermont County, Ohio, in the Goshen school district. A developer planned to build 600 houses and asked the planning commission for zoning approval. The planning commission realized the school impact of such a development. It agreed to change the zoning to permit the development provided the developer would house the school children until the school district could build new schools. This meant first building the houses, then with the new tax base they could float a bond issue and finally construct schools.

Yes, farmers will pay more taxes, but so will everyone. In some of our more specialized bedroom communities, there is serious question as to whether they can support themselves. In an old established community such as Elmhurst, near Chicago, they are earnestly looking for suitable industry to help carry their tax load.

What do we need to know about the principle of taxation in tackling this problem? I live in Fairfax County, a bedroom community here in nearby Virginia. Our officials began to question whether a bedroom community can support itself. They rezoned certain tracts for industrial park sites. The nearby home improvement associations objected. Industry isn't coming in fast enough - tax-wise. We raised the mill rate some. This year we raised property valuations. We have voted fifty million dollars of school bonds the past six years; twenty-four million dollars of sewer bonds. We voted bonds to buy the water works; bonds for parks, and now we are getting ready for ten million dollars more sewer bonds.

Whenever we get some choice business established, one of the adjoining incorporated cities petition to annex it. Now we are trying to become a city.

If we succeed we will be the second largest in the United States, geographically. Our form of government will change. The farmers in the county will find themselves inside the city limits; and, about half of our county is still agricultural land.

Yet, wouldn't this be better than to attempt to combine twenty-eight separate municipalities and the farms, a few years from now, as Dade County, Florida did about three years ago and tried to vote out of existence, last month.

I am wondering if urban and rural planning backed by zoning may be the real answer in areas like Kaufman County.

We are inclined to think about the impact on the farmer but let's keep this in perspective. What kind of impact will the city family who now lives in the country encounter? The wife misses the garbage disposal she had in town. Without bus services, they buy a jalopy for her. Pretty soon with a lot of these homes going up and the traffic on the super highway, trash begins to accumulate. Let's have trash collection -- it only costs two or three dollars a month a piece -- and you make a group decision. Yes, it's easy to have some of the kinds of things you had in the city come out to the country, if you pay for it.

On the other hand, that city family who picked that nice slope with a view probably wasn't conscious of the amount of noise that a truck makes as it zooms up that hill wide open every night. As this population grows and that four lane road is widened to six or eight lanes, the beautifully landscaped front yard may become a raw bank close to the front door. Is this the ideal thing that the city family moved to the country to enjoy?

A little buffer of trees fifty yards from the highway, a cluster of homes and a good fence to stop wandering children short of the highway may have some real merit. Where this cluster of homes is located may be important in terms of costs of community services or efficiency in the use of tax dollars.

Let's take a look at those clusters of homes closer to Dallas and the problems that they create. Does each home have its own well, septic tank, propane gas, etc.? If so, what is the added construction cost? The alternative is for local government to run sewer, water, and gas lines from the city limits to each cluster of homes. How many extra miles of pipe are involved because of this open space "hedgehopping" type of development?

Steve Smith of the University of California tells me we don't have very much research on rural-urban fringe problems. We don't know how much it costs to service a hundred families down the highway a house at a time as contrasted with a subdivision.

An Ohio community I learned about last year illustrates the problem. A few years after a developer built a group of houses out of town a ways, the septic tanks began giving trouble. The owners asked the city fathers to build a sewer line to service them. The conservative city fathers said, "Okey, but we won't go in debt or vote bonds, you will have to pay for it on a front footage basis."

This was fine with the homeowner with a one hundred foot lot, but was a little rough on the nurseryman who was located between the city and these houses. He had a \$73,000 front footage cost for building a sewer that he didn't need. It could have been a farm -- but this isn't the important thing. The important point is that this \$73,000 tax bill for one individual was not created when they built the sewer line, it was created a few years earlier when the homes were built in that location. Would planning and zoning have prevented this? Are these the kind of issues people in our communities need to understand?

Efficiency in the use of our tax dollars will become increasingly important in the next forty years because we will have five times as many tax dollars. Many new community services will be added.

How many of us really understand the fine points of school reorganization, the right way to plan and zone, the principles of taxation and the best tax structure for a particular community situation? The need is to involve people in this process through a good educational program for the masses so that the planned community will develop as planned.

Extension's opportunity and obligation

It has been said that the Cooperative Extension Service has the most effective adult education organization in the free world today. One of the real educational challenges of Extension will be in helping communities adjust to their new situation. Extension has the opportunity to use its special ability in organizing the necessary adult educational programs. If Extension can effectively join with the leadership in the community to develop the necessary educational program, citizens' awareness of the issues can be achieved.

Awareness will create a demand for action. Action should follow understanding-- not precede it. Extension has a wonderful opportunity to organize an intensive educational program for interested leaders on basic issues such as: alternative approaches to school reorganization - principles of taxation - function of planning and zoning, etc.

No, it is not anticipated, or necessary for Extension to provide all the resource specialists in all of these areas. These resource people may best be obtained from schools other than agriculture in the university; from members of the Governor's staff, or other sources. Extension's function might logically be in working with community leaders on the kind of educational program needed; in lining up the necessary resource people to do the job; organize the program, and provide the medium through which these people can effectively work to achieve needed understanding of the problem by community leaders.

Finally, after decisions are made, perhaps even including changing the form of local government, there is great need for the people to understand how these new programs or even governments will function. You can do a highly competent job of planning and zoning a community and then let a few influential people ruin the plan completely by getting zoning ordinance changes.

Last month I assisted a county staff with their state leader in developing a plan to join with the planning commission, the city manager, the farm leaders, the chambers of commerce and other organizations in the metropolitan area in conducting an educational program to explain the plans, point out the advantages and the costs, and in the case of planning and zoning, for example, be sure the citizens understand how it functions. All citizens need to contribute to the planning of the community as well as understand how it functions - not just the real estate developers, the land speculators, and the politicians.

The farmers in the community have a big stake in such educational programs -- but for that matter so does every other citizen.

Decisions on these issues are theirs - the efficiency in the use of the tax dollar are their responsibility and the kind of community they live in will reflect the zealously of their efforts.

Past experiences will not equip Extension to do the educational job visualized here. Neither will the past pattern of staffing or competencies involved. But successful execution of this job can be a tremendous asset to all of rural America and to the urban community as well. In the future there will be no discernible boundary between the rural and the urban, geographically or government-wise, in many areas.

Changes Facing Farm Youth

Dr. Stewart has given us a picture of some of the changes facing farm youth who select farming as their future.

Just as the community faces important changes, and the farmer encounters new situations, farm youth will be challenged with new opportunities and stiffer requirements in preparation for their future.

Over the past few years many things have been said and written relative to the impact of adjustments facing agriculture, on farm youth. One of the more striking, as well as significant, of these is the small proportion of farm youth who will have an opportunity to become farm operators of adequate family farms. Dr. Stewart has said this requires \$10,000 gross sales today and may require \$15,000 by 1975.

Farm youth opportunity to become farm operator

Based on available farm census data, there will be only enough "adequate" family farm units available to absorb eight to ten percent of our farm youth.

In analyzing farm youth opportunities we need to consider the number of commercial farms in each income class now in existence and the age of the operators.

According to 1959 census data in the forty-eight states, we had 3,703,642 compared to 4,782,000 in 1949. However, for our analysis the commercial

TABLE I - Farm Operators of Commercial Farms by Age Groups and Economic Class^{1/} (1959 Census Data)

		Commercial Farms					
Total all ages	2,412,160 ^{2/} Percent of total	Class I	Class II	Class III	Class IV	Class V	Class VI
		102,143 Percent in Class I	209,974 Percent in Class II	481,884 Percent in Class III	652,938 Percent in Class IV	616,839 Percent in Class V	348,382 Percent in Class VI
Under 25 years	2.1 ^{3/}	1.0	1.3	1.7	2.0	2.3	3.2
25-34 years	12.9	15.3	16.8	16.3	13.3	11.0	8.2
35-44 years	24.2	32.3	31.1	29.4	25.0	20.8	16.1
45-54 years	28.7	28.3	27.8	28.5	29.7	27.5	29.9
55-64 years	23.7	16.2	16.6	17.7	21.4	23.8	42.6
65 years and over	8.4 100.0	6.9 100.0	6.4 100.0	6.4 100.0	8.6 100.0	14.6 100.0	-- 100.0

^{1/} Class I \$40,000 and over of farm products sold
 Class II \$20,000 to \$39,999
 Class III \$10,000 to \$19,999
 Class IV \$5,000 to \$9,999
 Class V \$2,500 to \$4,999
 Class VI \$50 to \$2,499

^{2/} Total number of commercial farms by income classes used from U. S. Census summary

^{3/} All percentage figures are based on U. S. Census of Agriculture in 33 States available on Nov. 1, 1961

farms are the significant ones and here we find 2,412,000 in 1959 compared to 3,769,000 in 1949. The decline in "commercial farms" has been more rapid than that of "all farms."

Table I shows the number of commercial farm operators by income class (1959 definition) and the percent of operators in each income class by age group. This table reflects the very small percent of operators under 25 years of age irrespective of income. Compared with 1949 when there were 133,000 under 25 years there are 51,000 in 1959, a 62 percent reduction. In the 25-34 year age group, there is a 50 percent decline in commercial farm operators since 1949. Operators on the more productive farms seem to bunch in the 35-54 year age bracket. Older operators predominate in the Class V and VI income groups. (All Class VI operators over 65 are automatically classified as part retired and are not shown as commercial farm operators).

Following the same approach I used in my earlier analysis with which most of you are familiar, Table II gives us a mathematical approximation of farm units that will become available between 1959 and 1968. This Table assumes:

1. A \$10,000 value of farm products sold as a minimum to conform to the \$10,000 adequate family farm of Dr. Stewart.
2. The same death or survival rate for farm operators as the total male population.
3. Essentially all of the over 65 year age group will either die or retire in the next ten years.

TABLE II - Replacement Opportunity based on Deaths and Retirement - 1959-1968. Classes I, II, and III. (\$10,000 and up)

<u>Age Group</u>	<u>Number of Operators</u>	<u>Percent Surviving 10 years</u>	<u>Deaths</u>
Under 25	11,942 ^{1/}	98.2	215
25-34	129,450	87.4	3,366
35-44	239,969	93.9	14,638
45-54	224,617	85.4	32,794
55-64	136,696	69.9	41,145
65 and over	<u>51,327</u>	0	<u>51,327</u> ^{2/}
Total	794,001		143,485

^{1/} Applying age distribution to total number of commercial farms.

^{2/} and retirement.

On the basis of these data, the estimated replacement need for farm operators because of death or retirement in a ten year period (1959-1968) in Classes I, II, and III or on farms now having \$10,000 or more gross sales would be 143,485 or an average of 14,348 per year. This number might fluctuate moderately as a result of:

1. Some operators of these good farms leaving farming for health reasons, for non-farm alternatives, or other personal reasons.
2. The opportunity to combine some farm units of Classes IV, V, and VI into an economic unit producing at least \$10,000 gross sales.
3. Some present operators of Classes IV, V, and VI farms might leave their poorer unit and move to a better one as it becomes available and their financial situation permits.
4. Some people now in other occupations may buy and operate a farm in this economic bracket.

Points 1 and 2 would tend to increase farm operator opportunities for farm youth while points 3 and 4 would tend to reduce them. We do not have good data on these situations but assuming that they roughly offset each other appears reasonable.

The other side of this picture is the number of farm youth. According to C. L. Beale of the Farm Population Branch of ERS there were 1,700,000 males aged 10-19 in rural farm families in April 1960.

Simple division of the 1,700,000 farm boys who will become 20 years of age in the next ten years into the 143,485 farm operator opportunities (\$10,000 minimum) from Table II indicates that 8.4 percent would have an opportunity to become a successful farm operator with a relatively high farm income based on the assumptions made.

Since I used a \$5,000 minimum in my old computation, Table III is included to give you a comparison.

TABLE III-Replacement Opportunity based on Deaths and Retirement -
1959-1968. Classes I, II, and III. (\$5,000 and up)

<u>Age Group</u>	<u>Number of Operators</u>	<u>Percent Surviving 10 years</u>	<u>Deaths</u>
Under 25	25,000 ^{1/}	98.2	450
25-34	216,291	97.4	5,624
35-44	403,203	93.9	24,595
45-54	418,540	85.4	61,107
55-64	276,425	69.9	83,204
65 and over	107,480	0	107,480 ^{2/}
Total	1,446,939		282,460

1/ Applying age distribution to total number of commercial farms.

2/ and retirement.

By adding Class IV to the number of commercial farm units, we nearly double the number of farms. The result is 282,460 opportunities which gives a 16.6 percent figure for farm youth opportunities.

Neither the 8.4 percent nor the 16.6 percent figures are as firm as these exact computations might seem to imply. In the first place no allowance has been made for farm size increase during the decade. Stewart points out that this will be substantial. This would tend to make my figures on the high side. Secondly, we have only 33 of the final agricultural census state data. Our percentage income distribution by age groups is based on the 33 states. The probabilities are that final figures, which won't be available until after the first of the year, will make only minor changes in the age distribution and will change the opportunity percentage figure little, if any.

It should be pointed out that this is not a forecast of the percent of farm boys who will become farm operators but rather an indication of the percent who might find their best opportunity in farming compared to other alternatives.

There are other limitations to a farm boy becoming a successful farm operator. Two of these include the finances or credit necessary to become a modern farm operator, and the training in production technology, marketing, and business management essential in running a modern farm business. The non-farm alternatives and related factors fall in the next section.

The U. S. Manpower picture

The challenge of the farm youth aspiring to a non-farm alternative is that of choosing an occupation, acquiring the necessary education or training and

adjusting to the community where the job is.

To bring the problem of non-farm alternatives into perspective, let us take a look at the manpower situation projected to 1970 as developed by the Department of Labor in its publication "Manpower Challenge of the 1960's."

With the growth in population of the United States and the related expansion of the economy, it is estimated that to provide needed goods and services for a population of 208 million people anticipated in 1970, the gross national product will have increased from \$500 billion in 1960 to \$750 billion in 1970 (at 1960 prices). An expansion of these dimensions would require an estimated increase in the total labor force of 13.5 million people. On this basis, the labor force in 1970 would number about 87 million. (Table IV)

The population here today - and available to be counted - indicates that an increase of 13.5 million in the labor force is entirely possible. However, the question is: Who are these additional people, and will the individuals make the necessary adjustments from one industry to another, including people now underemployed in agriculture? Because of the low birth rate of the 1930's there will continue to be a shortage of men and women born in those years. By 1970 they will be in the 35-44 year age group, and there will actually be fewer available for work in this age group than in 1960. Thus, 88 percent of the required net increase of 13.5 million will come from among young people under twenty-four and men and women over forty-five (Figure 1).

Women, as a rule, work part time more frequently than do men, and come and go from the market more often. So also do young people. Thus, it is this kind of market which people presently on the farm have to look forward to. There will be a shortage of men in the prime age groups, and by the mid-1960's a tremendous increase in the number of young people coming into the labor market from cities as well as farms.

Occupational Opportunities

Young people, especially farm youth, now in process of training, need to be informed about occupational opportunities. It is common knowledge that today's goods and services demand an increasing number of better educated and better trained workers. Assuming a continuation of the basic trends and occupations in the United States during the past fifty years, our growing economy will require over forty percent more professional and technical people by 1970 than were employed in 1960. This group will command the highest income at the same time that it has the greatest increase in job opportunities. There will also be substantial increases in requirements for proprietors and managers, clerical and sales people, skilled draftsmen and service workers, with smaller increases among semi-skilled workers. The need for unskilled labor will not increase and may actually decline slightly (Figure 2).

The expected decline of seventeen percent in farmers and farm workers needed to produce the food and fibers required by our growing population reflects the great strides in productivity through the use of machinery and technology on the American farm.

Table IV

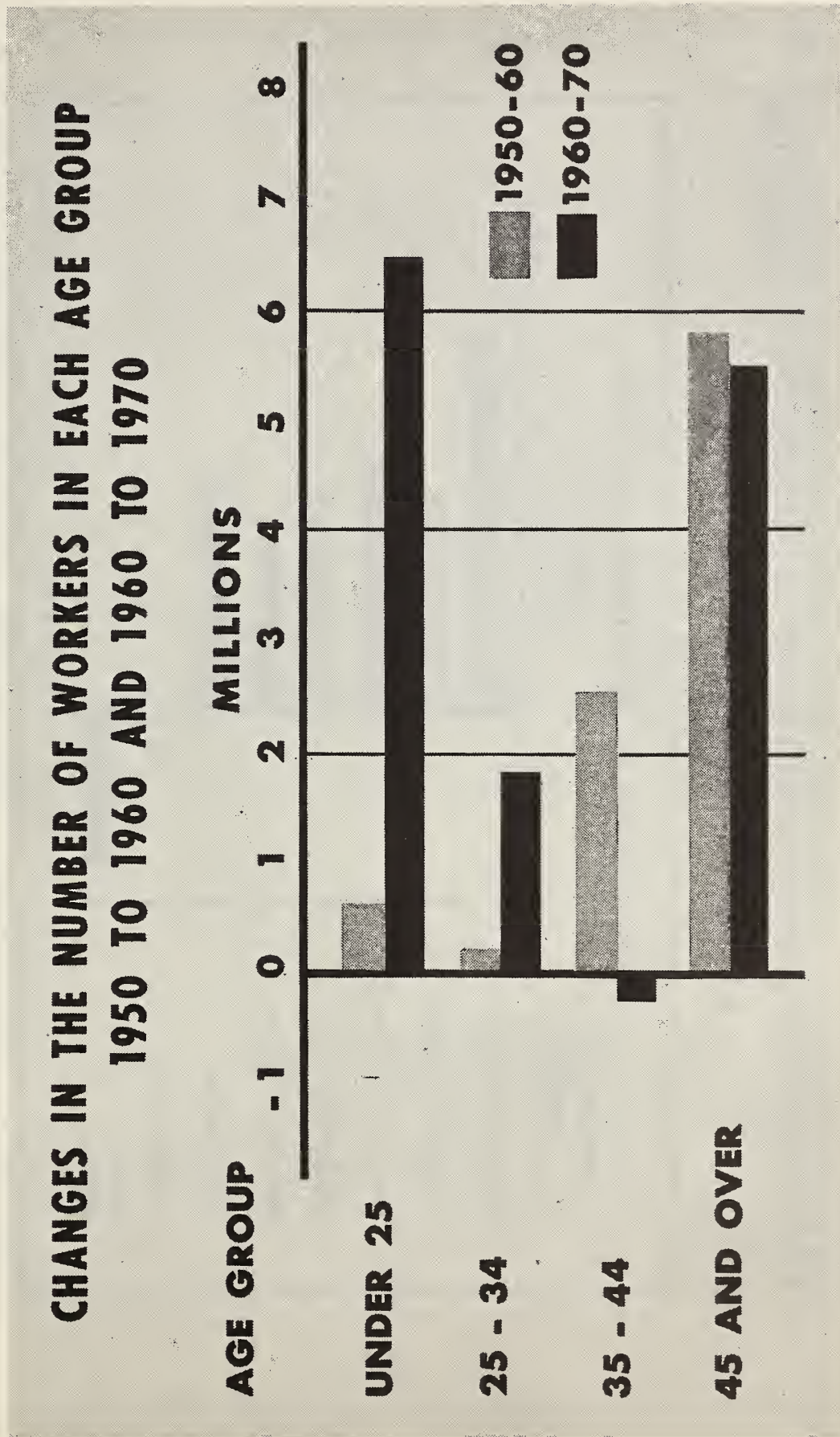
HERE IS THE LABOR FORCE BALANCE SHEET FOR THE 1960s

NUMBER OF WORKERS IN 1960	(MILLIONS)	73.6
SUBTRACT:		
Withdrawals- death, retirement, marriage, childbearing, etc.		-15.5
1960 WORKERS STILL IN LABOR FORCE IN 1970		58.1
ADD:		
Young entrants		+26.0
Adult women returning to work		+3.0
NUMBER OF WORKERS IN 1970		87.1

Source: "Manpower Challenge of the 1960s"
U. S. Dept. of Labor

Figure 1

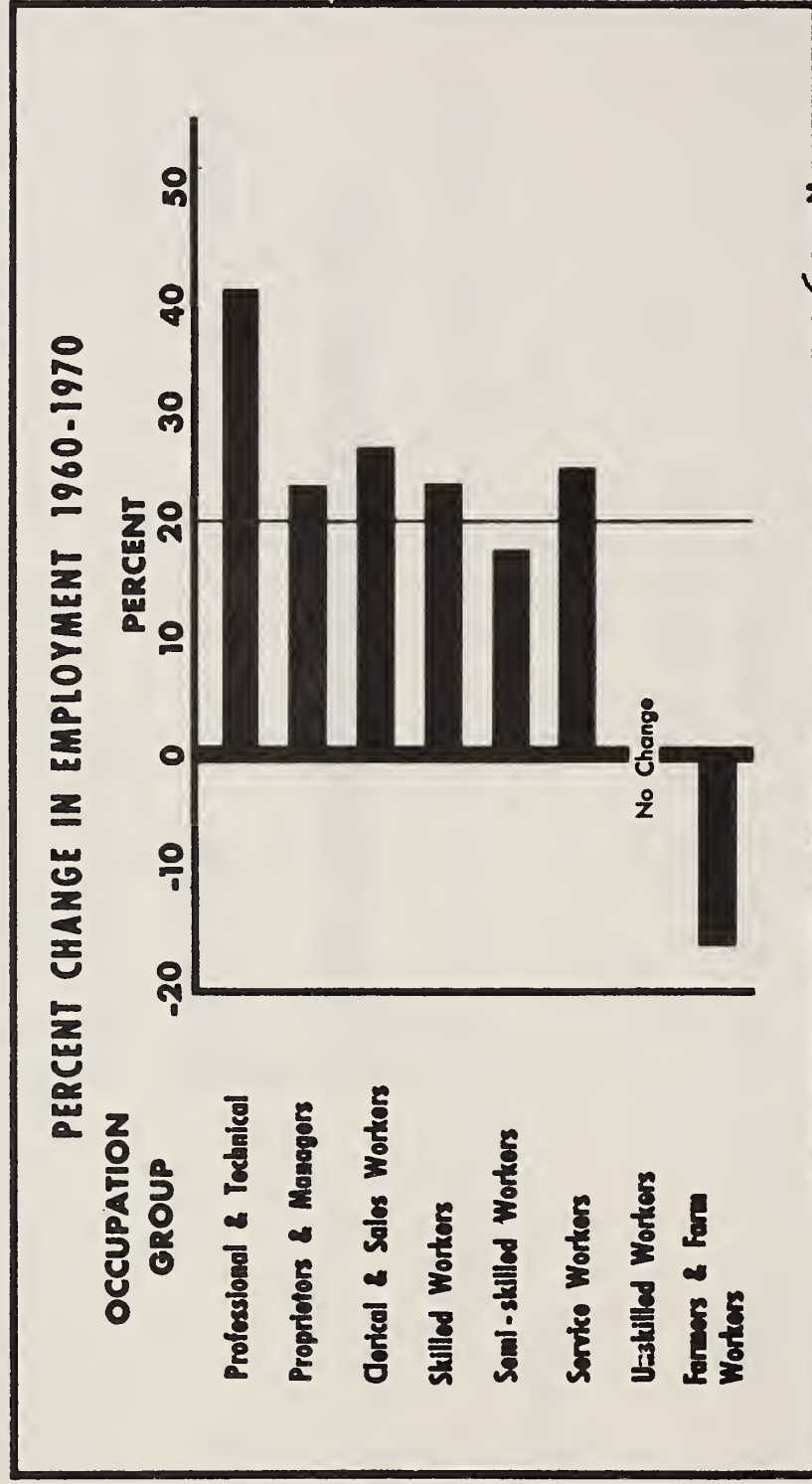
These changes during the 1960s will be substantially and significantly different from those that we experienced during the 1950s.



Source: "Manpower Challenge of the 1960s"
U. S. Dept. of Labor

Figure 2

The biggest increases will occur in occupations requiring the most education and training.



Source: "Manpower Challenge of the 1960s"
U. S. Dept. of Labor

Employment in major occupation groups show that semiskilled workers are the most numerous with nearly fifteen million in this category (Figure 3). Most farmers, changing occupations go into semi-skilled jobs. It is noteworthy here to realize that our labor force today is highly mobile. In a recent year more than eight million workers changed jobs. Some of them more than once during the year, making up eleven and a half million job changes. About two-thirds of these job changes were to a completely different industry, about one-half of them were to a completely different occupation group. Hence, as jobs open up, farmers with skills and youngsters with training will be in the best position to compete for these openings. Workers also move. About seven percent of all male workers are now living in a county different from the one they were living in the year before. More than one-half of them now live in a different state.

Education is a factor

Education and training are important to the individual. In 1959 a comparison of hourly wage rates in Baltimore, Maryland showed that the material handler and the lower skilled laborer most frequently earned wages of \$1.40 to \$2.20 per hour, while a machinist or the person skilled in maintenance of factory equipment for the most part received wages ranging from \$2.60 to \$3.40 per hour. (Figure 4)

Competition will be keener in the period ahead. (Figure 5). New young workers will have more education; seventy percent of those entering the labor force in the 1960's will have graduated from high school compared with sixty percent in the 1950's. Unfortunately, there is a dark side to this picture. (Figure 6). Seven and one-half million new workers will not have completed high school and two and one-half million of these will not have completed the eighth grade. It is important that parents and youngsters understand the training demands of a dynamic economy and that they realize the severe penalty on the individual that grade and high school drop-outs will create. They should also realize that school drop-outs weaken the total national structure in this day of competition with the communist countries.

Education is a factor in unemployment. (Figure 7). In 1959, one out of twelve in the labor force with less than a high school education was unemployed. 1959 was a relatively good year. Training is good job insurance but more important it is an essential buffer in times of recession.

Impact on rural communities

If eighty to ninety percent of our farm youth are destined to non-farm occupations as their best alternative, the rural community needs to take a close look at its educational system. Most systems will need to undergo drastic changes to equip our new labor force with the qualitative demands of our dynamic economy. Can it provide the training needed? What adjustments are necessary? What will the costs be? With the changes in our communities and the more discriminative demands of our economy, rural citizens have a big challenge in meeting these needs. Perhaps it can be done easiest in a changing community if that community understands the issue -- this is an educational job, Extension's challenge. The degree of

Figure 3

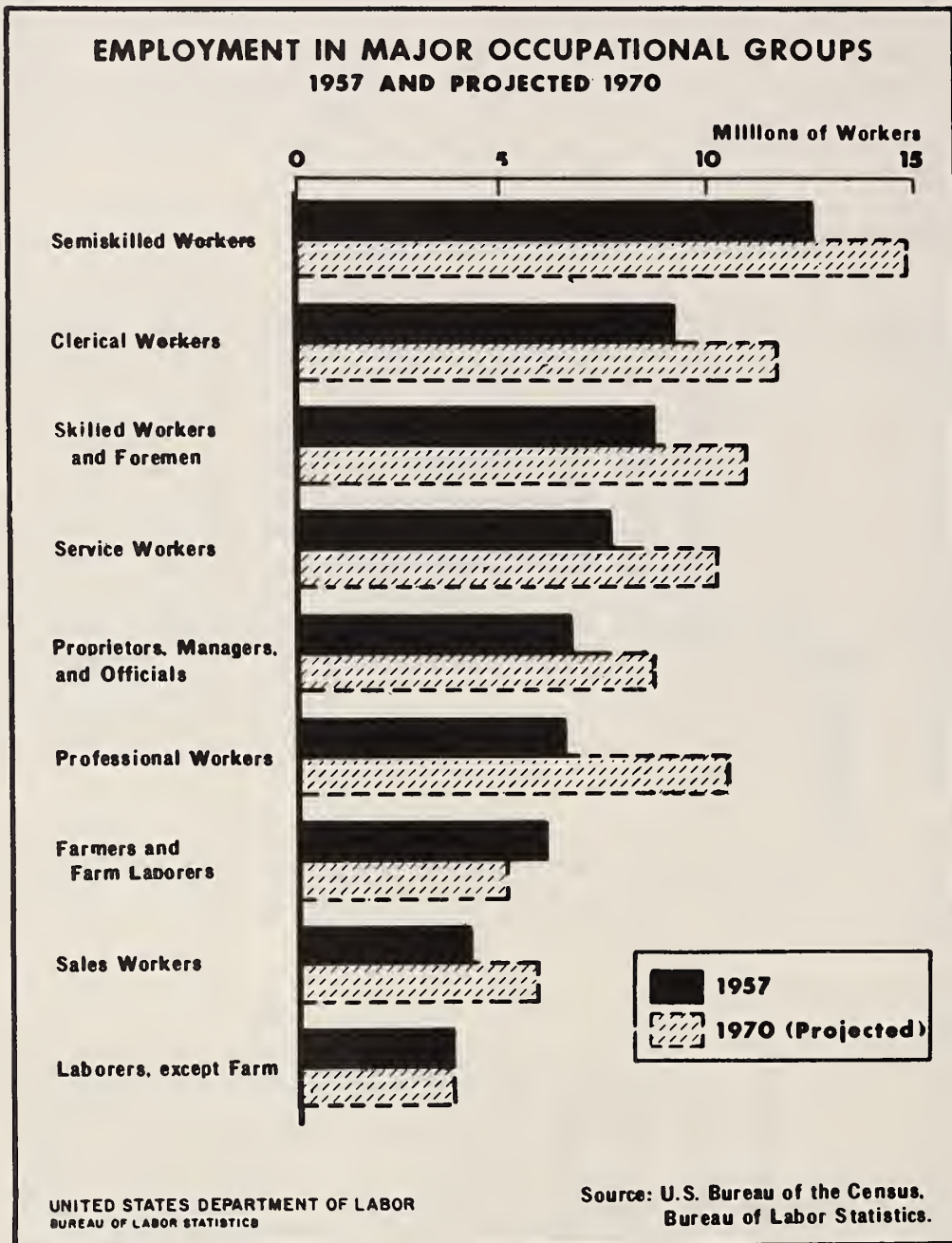
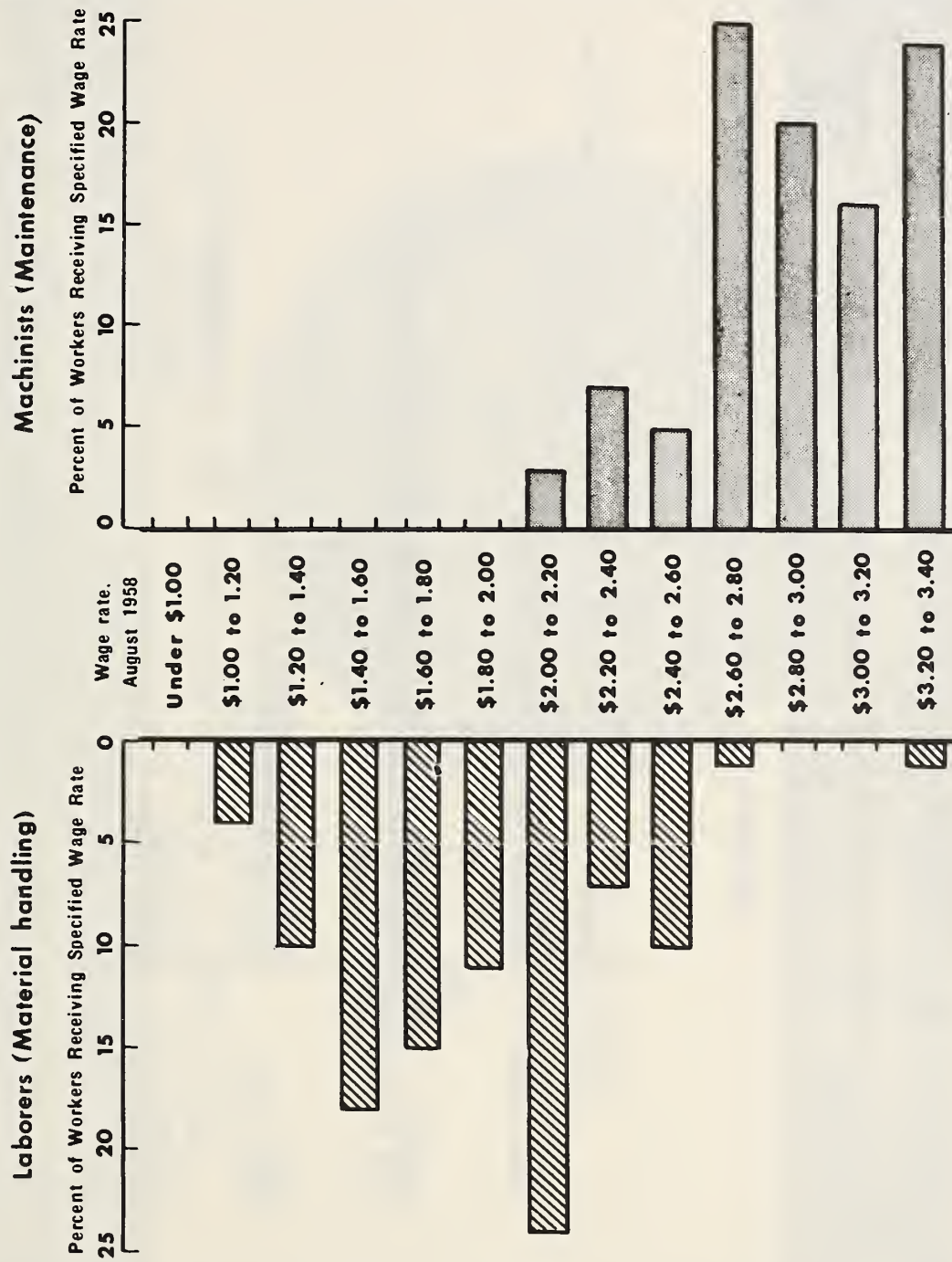


Figure 4

HOURLY WAGE RATES ^{1/} OF LABORERS AND MACHINISTS IN BALTIMORE, MARYLAND

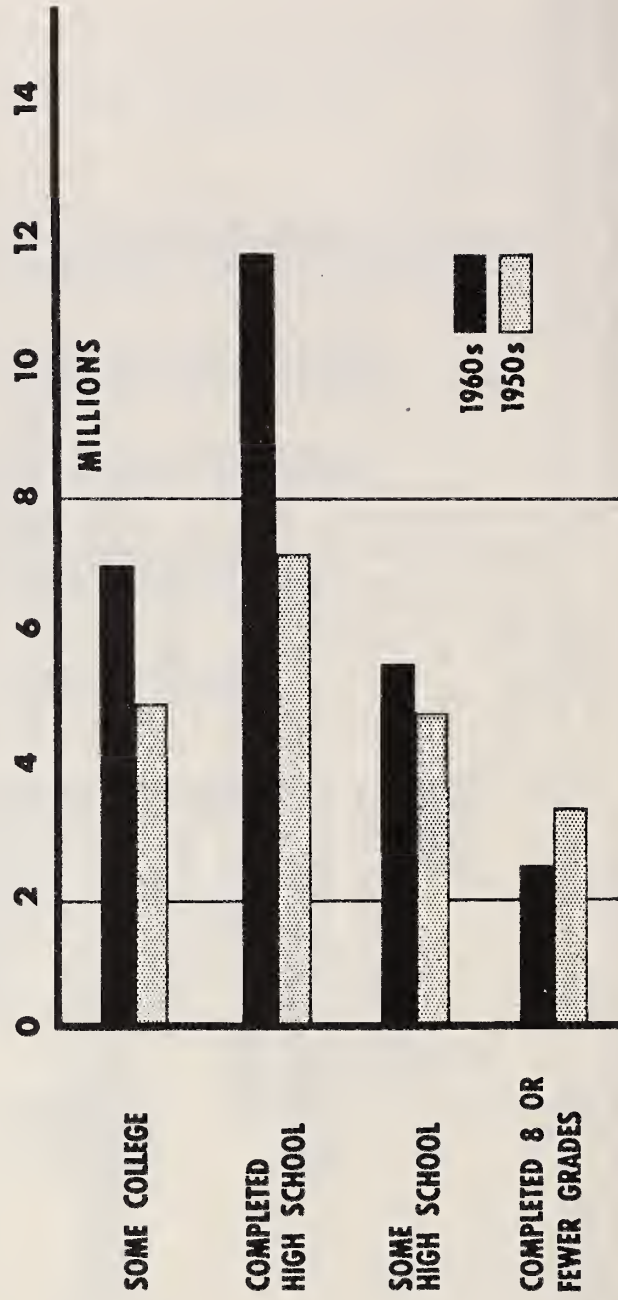


^{1/}Excludes premium pay for overtime and for work on weekends, holidays, and late shifts.

Figure 5

YOUNG WORKERS WILL HAVE MORE EDUCATION; 70% WILL BE HIGH SCHOOL GRADUATES OR BETTER

AMOUNT OF SCHOOLING OF NEW YOUNG WORKERS IN THE 1960s & 1950s

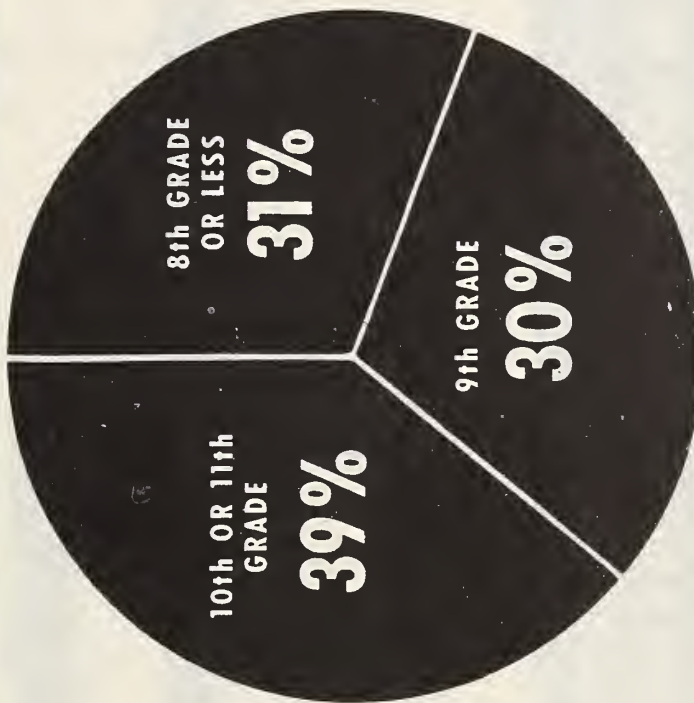


Source: "Manpower Challenge of the 1960s"
U. S. Dept. of Labor.

Figure 6

MILLIONS OF NEW YOUNG WORKERS WILL LACK A HIGH SCHOOL EDUCATION

SCHOOL GRADES OF YOUTH LEAVING BEFORE HIGH SCHOOL GRADUATION

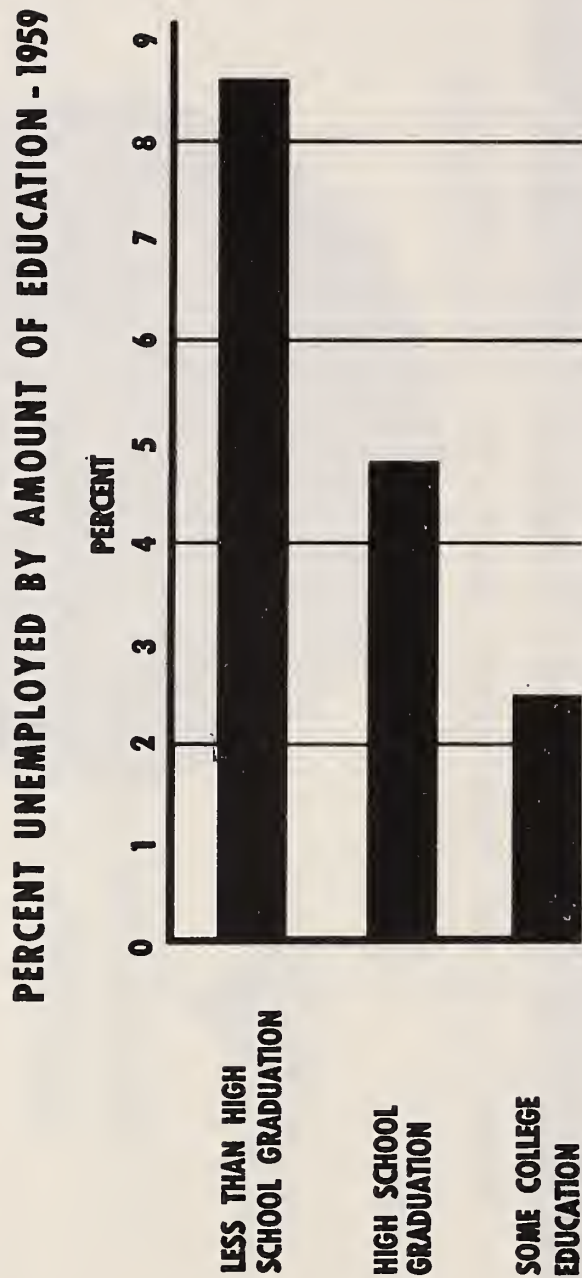


**7.5 MILLION
DROPOUTS**

Source: "Manpower Challenge of the 1960s"
U. S. Dept. of Labor

Figure 7

UNEMPLOYMENT IS MUCH HIGHER AMONG THOSE WITH THE LEAST EDUCATION

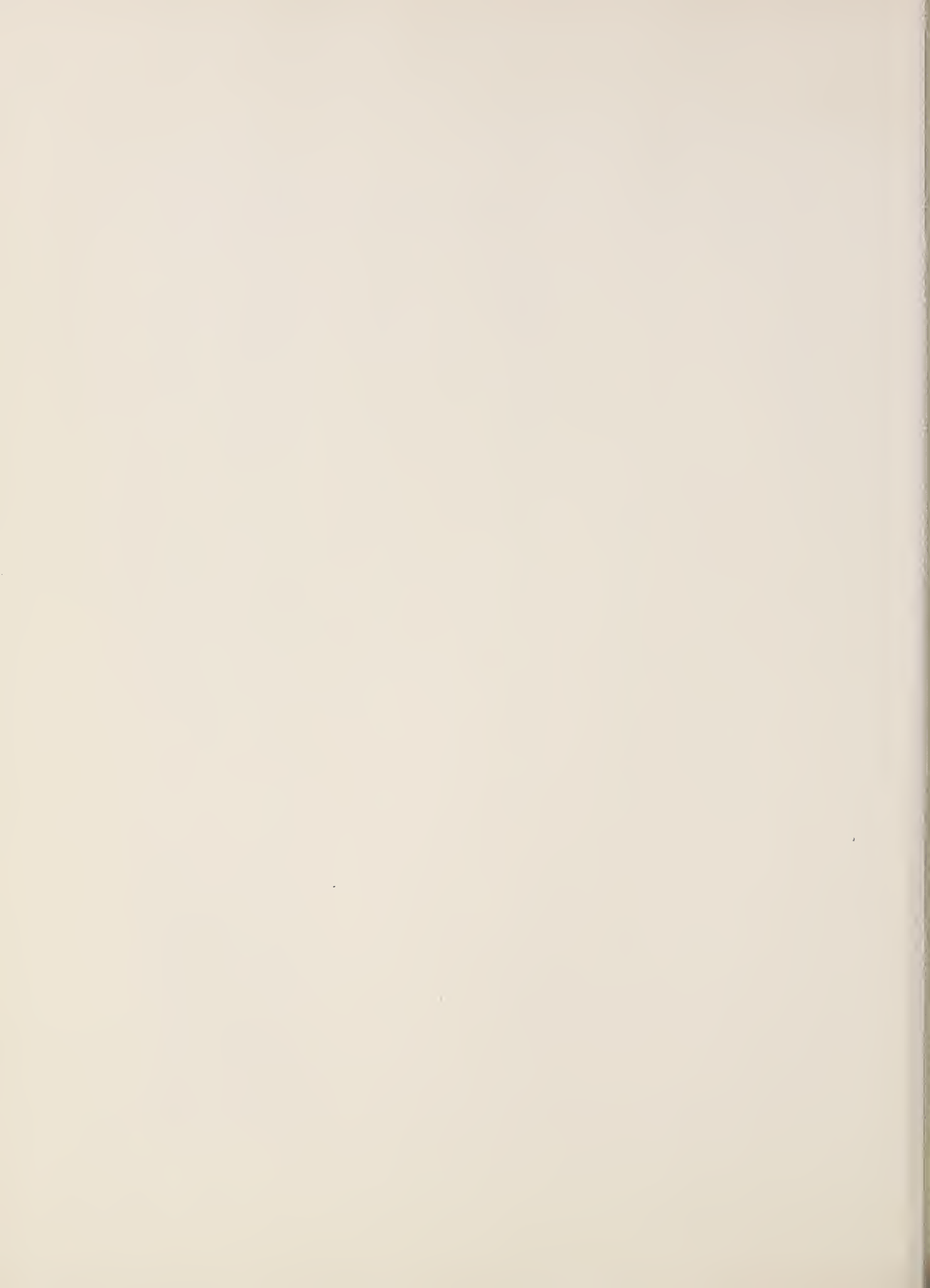


Source: "Manpower Challenge of the 1960s."
U. S. Dept. of Labor

success Extension and these communities have in meeting these challenges is important to total United States society.

This afternoon we have been dealing with the longer run outlook. You outlook specialists have an important role in the "Extension Service of tomorrow" in keeping your clientele informed of the important issues ahead and the factors relating to them.





UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

MARKETING AND NEW PRODUCTS

Talk by Philip B. Dwoskin
Marketing Economics Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 3:00 P. M., Tuesday, November 14, 1961

By a happy coincidence, the theme of this year's Outlook Conference "Gearing U. S. Agricultural Production to Expanded Domestic and Foreign Use," and the topic assigned to me, "Marketing and New Products," seem to be compatible. It is my firm belief that marketing, or the marketing system, and new processes which usually involve the adoption of new technology in producing new products, are a basic means of bringing about expansion of domestic use of agricultural production. You, who are out working with farmers, farm groups, and consumers of agricultural products, probably realize better than anyone else the importance of understanding how our marketing system works, the need for making it more efficient, and, very important, communicating an objective account of how the marketing system works to both producers and consumers.

Because of this, a good part of my remarks will be devoted to research under way in the Marketing Economics Division. Our research program embraces all aspects of economics of marketing farm products from the time they leave the farm until they are purchased by the ultimate consumer.

Let us keep in mind the magnitude of the problem we are dealing with when we talk about the food marketing sector of marketing. We are dealing with a sum of about \$60 billion annually expended for food and food services in the United States, of which the food part of the preceding amount is about \$40 billion. With this in mind, let us review what changes have taken place in the marketing system in the post-war years. One change of great significance to farmer's bargaining power in the marketplace, has been the trend toward bigness through merger and diversification in almost all sectors of the food industry. This has had an impact on the way in which farm products are bought; mainly in terms of the increasing importance of direct buying and contract buying of agricultural commodities. A major area of research in our Marketing Economics Division is in studying what is happening in the marketing system due to the impact of changes and methods of buying farm products, and what these changes mean to consumers at one end and farmers on the other. Another area of research closely related to the market structure research and useful in providing all parties with a better understanding of the marketing system is our marketing margins, costs, and efficiency studies.

Marketing margins research should be useful to this group because it provides factual information of which farm groups as well as consumer groups should be aware. Of chief interest, is the general market basket work which is in two parts. First, we have the farm-retail spreads which are calculated for 60 foods. The spread--the difference between the retail

price and the equivalent payment received by the farmer--provides an estimate of marketing charges. Price spreads also are estimated for 7 product groups and a market basket containing the quantities of these products bought in a year by a moderate income urban family. The other part of the margins research concerns the marketing bill which consists of annual estimates of the total expenditures for domestic farm foods by consumers of this country, the bill for marketing these products, and their total farm value. For example, in yesterday's session you were told that charges for marketing farm products will average a little higher this year than in 1960, which means in effect, to the farmer, that his share of the consumer's retail food dollar will shrink a little more. However, this work indicates that the components making up marketing spreads do not necessarily increase in the same way. For example, we have found that although labor costs which account for half of the costs of marketing food products have increased about 11 percent since 1953, increases in productivity on a per man-hour basis have kept labor costs from rising only about a third as much as the average hourly earning of employees. This is the kind of information that should be made available to farm groups so that a better understanding of what, how, and who in the marketing system is effecting the costs of marketing his products. Included in this research area are studies which measure the relative costs and efficiencies involved in assembling, processing, and distributing farm products. Using an economic-engineering approach, these studies provide all segments of agriculture and agriculture-based industries with the kind of economic intelligence needed to promote growth.

Concurrent with changes on the food manufacturing side, in terms of mergers, etc., retail food marketing also has undergone considerable change. The development of the supermarket has been one of the more important changes in marketing of the post-war years. The supermarket concept has provided the food industry with the perfect showcase for the ever-increasing flow of new products which is such an accepted part of the American scene today. The supermarket has been an important vehicle for mass merchandising, mass promotion, and a catalytic agent in making dynamic our mass consumption economy of today.

Another important area of research which seems to fit in at this particular point is the merchandising and promotion work carried on in our Division. Merchandising research which is important to both the farmer and the consumer is being done to evaluate and test the best ways of maximizing sales at the retail level and, thereby, increasing the selling efficiency of the firm and giving the consumer what she wants in the way of merchandising. Promotion research is of increasing importance as an ever-growing number of farm groups are organizing and spending money on promotion of farm products. The question most often asked of people in the field is should we promote, and, if so, how can we most effectively use our limited promotion funds. Answers to these questions we hope will be forthcoming from the work now under way in this area.

In the preceding remarks, I have mentioned only a few of the many changes that have occurred in marketing in the post-war years. We look for the major changes that have occurred in marketing; that is, the trend toward bigness of enterprise in the processing and distributing areas to continue

in the years ahead. The forces which led to the increased size of enterprise in these segments of the economy will inevitably lead to enlargement of such a system on the agricultural marketing side. Thus, marketing agencies, of course, will vary from commodity to commodity; but if the farmer is to improve his bargaining power in the marketplace, he has to gain a stronger voice in market transactions.

We must take cognizance of an important but hard-to-predict factor operating in the marketplace--namely, Mr. and Mrs. Consumer. Consumers who expend the \$60 billion for food and food services will have a strong effect on the manner, form, and price at which food products are marketed in the future. The food industry is becoming aware of some fundamental changes in the attitude of consumers toward food products. There is little doubt that consumers like convenience foods and are buying some of them in volume; but there is a growing awareness by some in the food industry of greater and greater price consciousness of the consumer. On the retail side, for example, not only do we have weekend special pricing, but we have early-in-the-week special pricing. The fact is that large volume movers in retail frozen food cabinets and dry grocery shelves are, in many instances, the lower priced items.

In our work on convenience foods, a sidelight of interest was that our store audits in the cities where we collected prices for a year, the volume-price relationships just mentioned, were almost invariably the case. Since I have mentioned our convenience food study, a brief description of what the study is about may be worthwhile. In cooperation with the Institute of Home Economics, we are trying to determine among other things the comparative costs of more highly-processed forms with their less highly-processed or fresh counterparts. The nutritive and quality analysis of some of these products will be published by the Institute. We will publish the comparative costs, yield, and in some instances, time of preparation comparisons of 280 foods.

An interesting event and one of some possible significance in terms of market change from a price point-of-view is the entrance of food discount houses in the retail food business. Trade estimates place food volume by discount houses at an annual rate of \$2 billion, and many in the trade believe this figure will double or quadruple in the next four years. Food discount houses undoubtedly will exercise a downward price pressure on the retail food industry and cause traditional supermarkets to make further efforts to cut services and operating costs to meet price competition from discounters. This could put a great deal of pressure on prices which will probably go back to growers and processors. We have plans to research the impact of food discount stores on traditional supermarket operations.

Closely related to the growing awareness of price by consumers is the increased sophistication of consumers in the marketplace. There is some evidence from our own work, articles in trade papers, etc., that some consumers may have reached the conclusion that the quality differential between private brands and nationally advertised brands are not too great, or that the price differential between the two lines is large enough for them to forego the small difference that may be noticeable in quality. In addition, it seems that consumers are catching on to the fact that a new package

around the same old product is not necessarily an improvement. Consumers increasingly are aware that a so-called instant or quick or convenience tag on the label does not necessarily mean that at all, and that some of the so-called convenience items turn out to be inconvenient in the sense that long periods are required for thawing, etc. In addition, there appears to be a greater amount of label reading and concern about deceptive packaging or deceptive pricing between regular-sized and economy-sized packages. The fact of greater price consciousness and sophistication of consumers plus the growing emergence of health and dietary factors relating to some of our foods are all important factors in anticipating changes in food marketing. It appears likely that these factors will require greater responsible selling efforts throughout the food industry. However, there are many forces working for the inevitable expansion of the food industry. These forces are the familiar ones we have talked about over the years--population increases, more women working, changing population composition from an age and ethnic point-of-view, the shift to the suburbs, shifts in the agriculture to the urban sector, and consequent decrease of home-produced foods, and other equally important factors--all adding up to a growth situation for the food industry.

A major force in marketing making for change apparent to all consumers in the post-war years, has been the new food product orientation of our mass consumption economy. Let us take a look at some new products and how they may effect future markets from the consumer and producer point-of-view.

New products can be a market expanding vehicle. It is our thesis that new food products can arrest decline in consumption by providing today's consumers with what they want in terms of convenience, quality, and in some instances, we hope, price. We need not go further than our own backyard to illustrate this particular point. Potato flakes have sparked a tremendous growth that has occurred in the development of dehydrated potato products in the last several years. It is no coincidence that with this upsurge in production of processed potato products that per capita utilization of potatoes has leveled off and has even increased in the last several years. Similarly, this has happened in the areas of frozen concentrated orange juice, cake mixes, baked goods, particularly brown-and-serve rolls, and instant coffee. I'm sure other examples can be cited.

The greatest opportunities for new product development in the food field lie in the application of various dehydrating techniques to agricultural products. Success of these products will be keyed to the optimum combination of fresh-flavor quality, price, and convenience in use. Dehydration processes in an advanced developmental stage or in the early stages of commercialization which appear most likely to be of growing importance in the next several years are as follows:

Dehydrofreezing process.-- A development of WU, whereby fruits and vegetables are dried to about 50 percent of their original weight and then frozen and held frozen. The quality of the thawed and cooked food is equal to that of the normal frozen product, and there are savings in freezing, packaging, storage, and shipping costs. Although dehydrofrozen foods are not yet in national distribution in the retail market, they are gaining increased acceptance in institutional markets. Examples are pimientos for processed

cheese, vegetables for soup-making, peas in institutional use, and apple slices for pie-baking. Product testing of dehydrofrozen apple slices by Michigan State University and the USDA among pie bakers has led to a four-fold increase in processing facilities for this product.

Vacuum puff-drying.- The successful dehydration of orange, tomato, and other juices by puff-drying, utilizing vacuum at low temperatures, was worked out on a pilot-plant scale by the Western Laboratory. At present, "orange crystals" and other dried citrus juices are on the market and sales are increasing. However, dehydration under vacuum is expensive. Knowledge of these costs of dehydration has led to a search for less-expensive methods with no noticeable change in quality. Two new dehydration processes have resulted. These are as follows:

Essence-recovery dehydration.- A simple and efficient system for producing dried apple, grape and other fruit juices that are not highly sensitive to heat was developed by the Eastern Laboratory. It consists in the rapid concentration of the juices to about 98 percent solids, return of the volatile flavor stripped off during the concentrating step, and discharge on to a cooled roll. The liquid sets to a "glass" that can be broken up, the remaining water removed, and packaged. The Quartermaster Corps finds this instant apple juice a very satisfactory dehydrated product. This system was used in the 7-fold apple juice superconcentrate, which was market tested successfully in Ft. Wayne, Indiana. The test product, while not fully dehydrated, was at twice the concentration of presently available juice concentrates.

Foam-mat drying.- An alternative method of drying in which fruit or vegetable juices or purees are beaten to a foam, usually with the aid of emulsifiers, and dried in an airblast, is the subject of active research and development at the Western Laboratory. It is being tested on orange juice at the Winter Haven Laboratory.

Instantly dispersible dry whole milk has been produced by the foam-drying process. Active research on the engineering phases of converting this batch operation to a continuous vacuum belt process is being conducted in the Eastern Laboratory in Philadelphia. The problem of stabilizing the bland flavor of fluid milk in the dried milk is still the main stumbling block to early commercialization. Gelation and/or stability is also the problem of sterile concentrated milk - a product on which the Department, the University of Wisconsin, and others have been conducting active research on in recent years.

Both products will have a considerable impact on the dairy industry. We feel objective market research is needed to assess the extent and degree of impact.

Freeze-drying.- This is probably one of the more exciting new processes to hit the food field in recent years. The process offers promise of being a really instant, easy-to-prepare process, producing foods of high, fresh-flavor quality. Food (cooked or uncooked) under this process is dehydrated under vacuum while frozen. Freeze-dried foods apparently do not become toughened or shriveled, and when rehydrated, regain their original flavor

and texture. Properly sealed, these foods can be stored at room temperature for long periods of time. Although the main emphasis presently is on meat products, freeze-dried shrimp are available in the institutional market and complete already cooked entrees are available for the outdoor sportsmen outlet. The Quartermaster Corps has provided the leadership in developing this process and there appears to be some obvious savings in transportation, storage, and packaging costs compared to fresh, frozen, and canned. However, whether these savings will offset the increased cost of processing still remains to be seen. We hope to research the cost and the market potential aspects of freeze-dried products.

There are several other interesting products in pilot plant testing stage at the utilization laboratories. No special process is involved here, rather the products are outgrowths of the application of dehydration techniques applied to other products. A good example is sweetpotato flakes.

Sweetpotato flakes.-- The application of the know-how gained in the development of the white potato flake process developed at the Eastern Laboratory has been applied to sweetpotatoes by the Southern Laboratory. Several technical problems relating to production and flexible packaging still must be resolved before commercial production becomes a reality. However, the product packed in a tin will be tested this year in several outlets. The sweetpotato flake is an excellent product--nutritious, easy-to-use, and with good fresh-like flavor. We think it can't miss. The ultimate size of the market for this processed form of a relatively perishable vegetable is hard to predict, but this new food product has the potential for attracting many new consumers of sweetpotatoes.

Instantizing "instant" foods.-- Many of the so-called convenient-to-use foods offered on today's grocery shelves require, in some instances, more overall cooking time than their less highly-processed counterparts. This is particularly true for dehydrated potato and other vegetable products. Work under way at the Eastern Laboratory shortening cooking time for such products drastically, indicates excellent prospects for the commercial development and adoption of an instantizing process for dehydrated potato and vegetable products.

Bulgur.-- Just as new products have helped to improve the competitive position of potatoes, new products might do the same for wheat. One interesting item is a parboiled wheat product called bulgur developed by the Western Laboratory. This is really a very old product in parts of the world, but new to most of this country. This product can be used in many forms, but a canned form was developed which is much more convenient to use than the dried bulgur now being sold. We market tested the product in cooperation with several Kansas State agencies earlier this year in Wichita, Kansas. Canned bulgur is now available as a regular item in some stores in the Midwestern area.

Other products of interest are: A bean powder which makes an instant product of one of the slowest cooking vegetables available on the household scene. Whole egg powder is nearing commercial reality. Other possibilities are vegetable chips and dried honey.

An outstanding piece of research which may prove of far-reaching significance to the growth and stability of the processed food industry, is the time-temperature-tolerance work of the Western Laboratory. This work proves beyond doubt the importance of proper storage temperatures in maintaining quality and that, furthermore, storage temperatures are equally important for canned, dried, and packaged foods.

Of interest to us consumers, an inexpensive gadget has been developed for frozen foods which when placed in the container at the processing plant will indicate to the receiver the temperature-time experience of the particular commodity. All this can only lead to better quality products available to consumers. Obviously, the same temperature-tolerance-time requirements apply to home freezers, refrigerators, and pantry shelves as well - this is the grey area of quality maintenance. Here is where you can do an educational job.

Let's take a long look ahead - the longer the look - the safer we economists are and, hence, bolder in our predictions!

The years ahead will see drastic changes in production and distribution of food. We will move into new and better ways of applying existing processing techniques and develop new ones. Automation will become commonplace - existing processes will be made continuous, with instruments doing the work of men. This will increase quality uniformity and also allow a narrowing of a specific range of quality and effect some economies in operation to the processor. In distribution, the trend toward completely dehydrated foods could lead to more dehydration in producing areas with distribution of dry powdered food blown in pipes to distribution terminals.

Food will be made more appealing to the consumer. Food scientists have been negligent in the area of developing or creating food flavors. Too many have been content to accept those flavors which result from simple combinations of herbs and spices. They have not pursued, as has the perfumer, the combination of many basic flavors and aromatics in a product that will please as well as satisfy. We also must place in the finished product the satisfying aromas that are now lost in preparation at the factory. More attention to this neglected area will make eating the real pleasure that it should be in this modern, convenience-packed world.

Foods will be processed for health and nutrition. Many appetizing foods are incompatible with digestion processes of some individuals. Other foods which are easily digested have little food appeal. The future will certainly bring us to a basic understanding of the psychology of appetite and the physiology of digestion and the interaction between the two.

Manned excursions into space require that we know a great deal more about individual nutrition. The space age may provide the impetus for a greatly accelerated advance in this direction. So, it is likely that in the not-too-distant future, we will be able to produce foods and prescribe them to fit the nutritional needs of an individual human at each particular age, with specific activity patterns, in sickness and health, and under varying emotional conditions.

Now, to return from outer space, I would like in closing to remark again on the theme of this year's Outlook Conference - expanding domestic markets for agricultural products. Our experience in market testing and commercialization of new products developed by the Department indicates that agricultural markets can be expanded through the addition of new food products. Now, we know that when you expand outlets for one agricultural commodity you may take away from another. But, our guess is that these substitutions do not necessarily have to be on a straight one-for-one basis, because as our research indicates new users are brought into the market by these new products for various reasons, some by ease of preparation, some by ease of storage features, and others by the product's greater availability. So, if we can increase individual commodities by attracting new users, we are in effect expanding markets for agricultural products. It is our view, that agriculture would face a bleak future without new products, and that the emphasis in agricultural research should be on more rather than less new product development and concurrent market research. Furthermore, expanded markets are not the only criterion for judging whether or not such research should be carried on by the Department. Improvement in processing and marketing efficiency, which result in lower prices to consumers, or improved quality, or convenience-in-use aspects, which give consumers (household and institutional) greater satisfaction or wider choice, also are desirable and acceptable goals whether or not they result in expanded markets.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

NATIONAL ECONOMIC SITUATION AND OUTLOOK FOR 1962

Talk by Rex F. Daly
Economic and Statistical Analysis Division
at the 39th Annual Agricultural Outlook Conference
Washington, D.C., 11:00 A. M., Monday, November 13, 1961

Economic activity has rebounded rather sharply this year from the 1960-61 recession low reached in the first quarter as spending increased in major segments of the economy. While the cyclical recovery so far is about average, it has left a relatively high level of unemployment. The 1960-61 recession was the fourth, the mildest and the shortest recession in the postwar period. Further increases in Government spending, business outlays for new capital, and consumer buying point to a continued expansion in economic activity in 1962. Demand increases indicated for the coming year would push the economy's gross product to a level around 8 percent or so above the current rate. Such a pickup in business activity would take up much of the slack existing in the economy without resulting in significant increases in the general level of prices.

The advance in total personal incomes in 1961 followed a year of relative stability. While real disposable income per person, after allowing for price change, declined slightly during the recession, they have risen an average of $2\frac{1}{2}$ percent from the first to the third quarter this year. Increases in output and employment indicated for 1962 are expected to lead to a substantial gain in consumer income. With relatively stable prices and continued population growth, the stage is set for a generally stronger domestic market in 1962 for food and goods and services in general.

Current Economic Situation

As usual in the early phase of economic recoveries, the relative stability of final demand led to a turnaround from rapid liquidation to accumulation of business inventories, particularly of durable goods. But increased purchases of autos and a further rise in Government expenditures also contributed to this year's gain in economic activity. Following this rapid rise, business activity halted in late summer with very small changes reported in retail sales, industrial output, employment and incomes. But this leveling apparently was due in part to bad weather and work stoppages in the auto industry. Manufacturers' new orders continued to rise through September and new car sales picked up sharply in October. Manufacturers also report that they expect increases in sales and inventories in coming months.

Major Demand Forces Shaping Economy

Let us examine in more detail some of the major forces shaping the nature and strength of the upturn in economic activity this year. The gross national product-- the value of goods and services produced-- was estimated at a 526 billion-dollar annual rate in the third quarter, about \$25 billion or 5 percent above the first quarter rate. This rise followed the very small decline of 1 percent in the GNP from the pre-recession peak in 1960 to the low in the first quarter of 1961. Rising Government expenditures and relatively stable outlays for consumer goods offset much of the impact of reduced inventory buying and some decline in business fixed investment.

Table 1.- The gross national product and major sources of expenditures

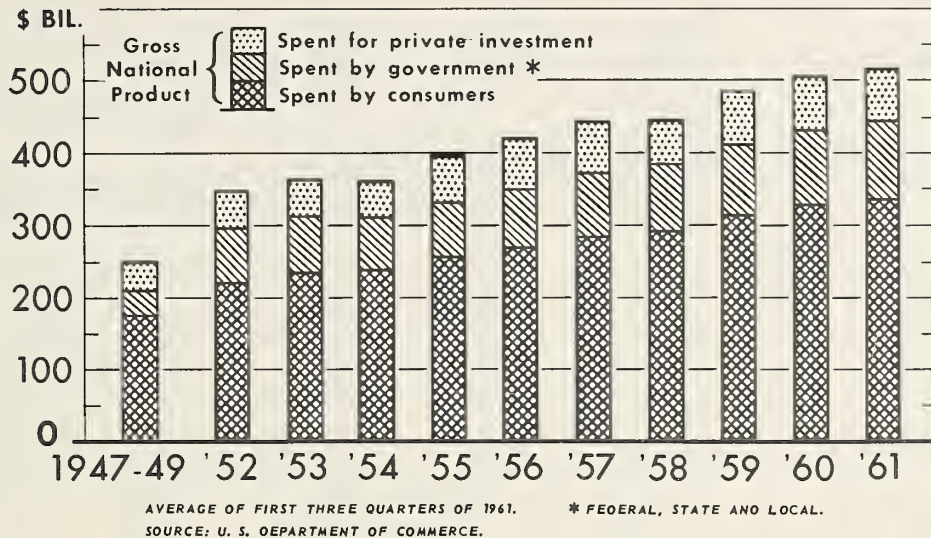
(Seasonally adjusted annual rates)					
Item	:	:	:	Change	
	:	:	:	:	:
	: 1960	: 1961	: 1961	: 2nd quarter:	: 1st quarter
	: second	: first	: third	: 1960 to	: 1961 to
	: quarter	: quarter	: quarter	: 1st quarter:	: 3rd quarter
	:	:	:	: 1961	: 1961
	:	:	:	:	:
	: <u>Bil.dol.</u>	: <u>Bil.dol.</u>	: <u>Bil.dol.</u>	: <u>Bil.dol.</u>	: <u>Bil.dol.</u>
Gross national product	: 506	: 501	: 526	: - 5	: 25
Consumer expenditures	: 330	: 331	: 342	: 1	: 11
Private investment, in-	:	:	:	:	:
cluding net exports	: 77	: 65	: 75	: -12	: 10
Government expenditures:	: 99	: 105	: 109	: 6	: 4
	:	:	:	:	:

Source: U. S. Department of Commerce.

Among the major sources of demand, the consumer sector accounts for the biggest slice of total spending for goods and services-- nearly two-thirds of the gross product in 1960 and probably about the same in 1961. This compares with around a fifth for Government expenditures and 12 to 15 percent in most years for the more volatile business investment spending. (Figure 1)

Consumer expenditures continued to edge up during 1960 despite the mild recession in business activity. This stability in consumer buying reflected relatively stable consumer incomes. The effect of employment cuts on labor income from the second quarter of 1960 was partly offset by unemployment benefits, increases in average hourly earnings, and higher farm incomes.

SOURCES OF DEMAND

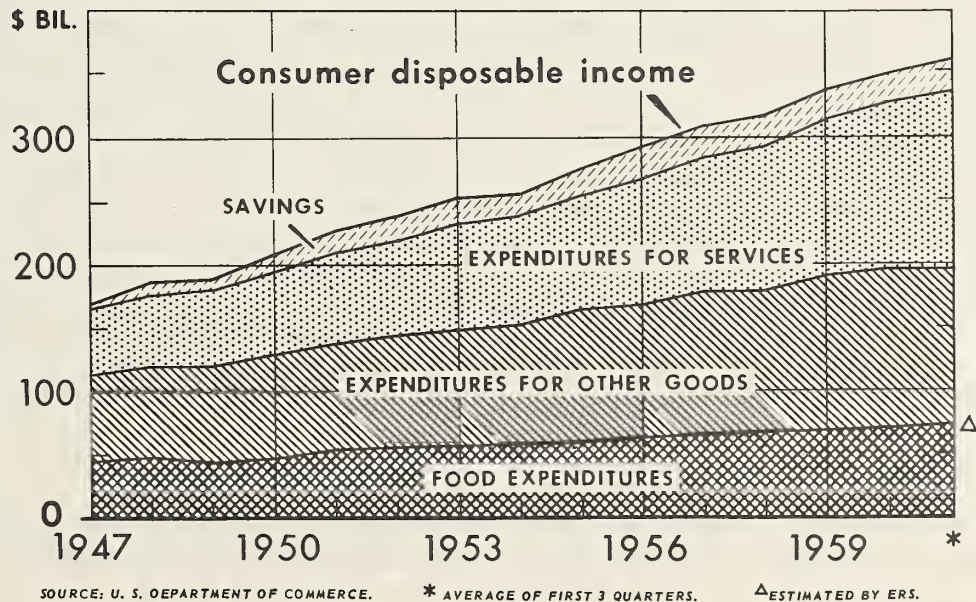


U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 645-61 (10) ECONOMIC RESEARCH SERVICE

Figure 1

INCOME AND EXPENDITURES



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NEG. ERS 646-61 (10) ECONOMIC RESEARCH SERVICE

Figure 2

Table 2.- Personal consumption expenditures,
income and saving

(Seasonally adjusted annual rates)					
Item	:	:	:	Change	
	:	:	:	:	:
	: 2nd	: 1st	: 3rd	: 2nd quarter:	: 1st quarter
	: quarter	: quarter	: quarter	: 1960 to	: 1961 to
	: 1960	: 1961	: 1961	: 1st quarter:	: 3rd quarter
	:	:	:	: 1961	: 1961
	:	:	:	:	:
	: Bil.dol.	: Bil.dol.	: Bil.dol.	: Bil.dol.	: Bil.dol.
Consumption expenditures	: 329.9	: 330.7	: 342.0	: 0.8	: 11.3
Durable goods	: 45.3	: 39.4	: 42.5	: -5.9	: 3.1
Nondurable goods	: 153.3	: 153.7	: 157.0	: 0.4	: 3.3
Services	: 131.2	: 137.5	: 142.5	: 6.3	: 5.0
Personal disposable income	: 352.7	: 354.3	: 367.8	: 1.6	: 13.5
Personal saving	: 22.8	: 23.6	: 25.8	: 0.8	: 2.2
Savings rate (percent)	: 6.5	: 6.7	: 7.0	: ---	: ---

Source: U. S. Department of Commerce.

From the cyclical low in the first quarter of this year, consumer expenditures have risen almost $3\frac{1}{2}$ percent, with a rise of 4 percent in consumer income. Much of the increase in buying occurred during the second quarter in durable goods, particularly the increase of 13 percent in sales of automobiles and parts. Expenditures for furniture and household equipment also rose with the gain in incomes and increased residential construction. Purchases of food and nondurable goods in general responded to rising incomes, but the big rise was for services, reflecting the persistent uptrend in outlays for medical care, personal care, and recreation. As expected in a growing advanced economy, expenditures for services account for an increasing relative share of total consumer expenditures. In 1950, for example, expenditures for services were about a third of total consumer spending; in the third quarter this year they represented about 42 percent of the total. (Figure 2). Expenditures for food and other commodities have responded less to rising incomes than have services. Consumer savings continued to rise during the recession and recovery period. Moreover, repayments on installment credit exceeded new credit extensions in most months this year reducing consumer credit outstanding.

Gross private investment demand consisting primarily of expenditures for business fixed investment, inventories and residential construction are the most volatile segments of total spending. They are also prime movers in shaping economic activity.

Table 3.- Gross private investment

(Seasonally adjusted annual rates)

Item	Change				
	2nd	1st	3rd	2nd quarter:	1st quarter:
	quarter	quarter	quarter	1960 to	1961 to
	1960	1961	1961	1st quarter:	3rd quarter
				1961	1961
	Bil.dol.	Bil.dol.	Bil.dol.	Bil.dol.	Bil.dol.
Gross private investment	76.9	65.1	75.5	-11.8	10.4
Fixed investment	69.3	63.8	68.5	- 5.5	4.7
Residential construction:	21.2	19.3	21.9	- 1.9	2.6
Other construction	19.5	20.4	20.6	0.9	0.2
Producers' durable equipment	28.6	24.2	26.0	- 4.4	1.8
Change in business inventories	5.4	-4.0	4.5	- 9.4	8.5
Net exports	2.3	5.3	2.5	3.0	-2.8

Source: U. S. Department of Commerce.

Business expenditures for new plant and equipment bottomed out in the first half of 1961 following a moderate cutback from the cyclical high in 1960. The upturn in business fixed investment outlays in the third quarter reflected the substantial inventory decline in 1960 and subsequent buildup in 1961, and the sharp pickup in manufacturers' new orders. New orders for durable goods in September were 22 percent above the low early this year and output of durable goods was up 12 percent. Similar sizable gains also occurred in contracts for commercial and industrial construction and in residential construction. The continued increase in expenditures by Government and consumers and sharply rising corporate profits from relatively low recession levels were major influences sparking the recent upturn in business capital expenditures. With these increases, business outlays for new plant and equipment in 1961 may total only about 3 percent below 1960. Farm capital expenditures this year are expected to total a little larger than in 1960. (Figure 3).

Our net exports of goods and services rose from a \$2 billion rate in the first half of 1960 to more than \$4½ billion in the first half of this year. Rapid economic expansion in Western Europe and Japan and larger U. S. agricultural exports increased total exports of goods and services. Over the same

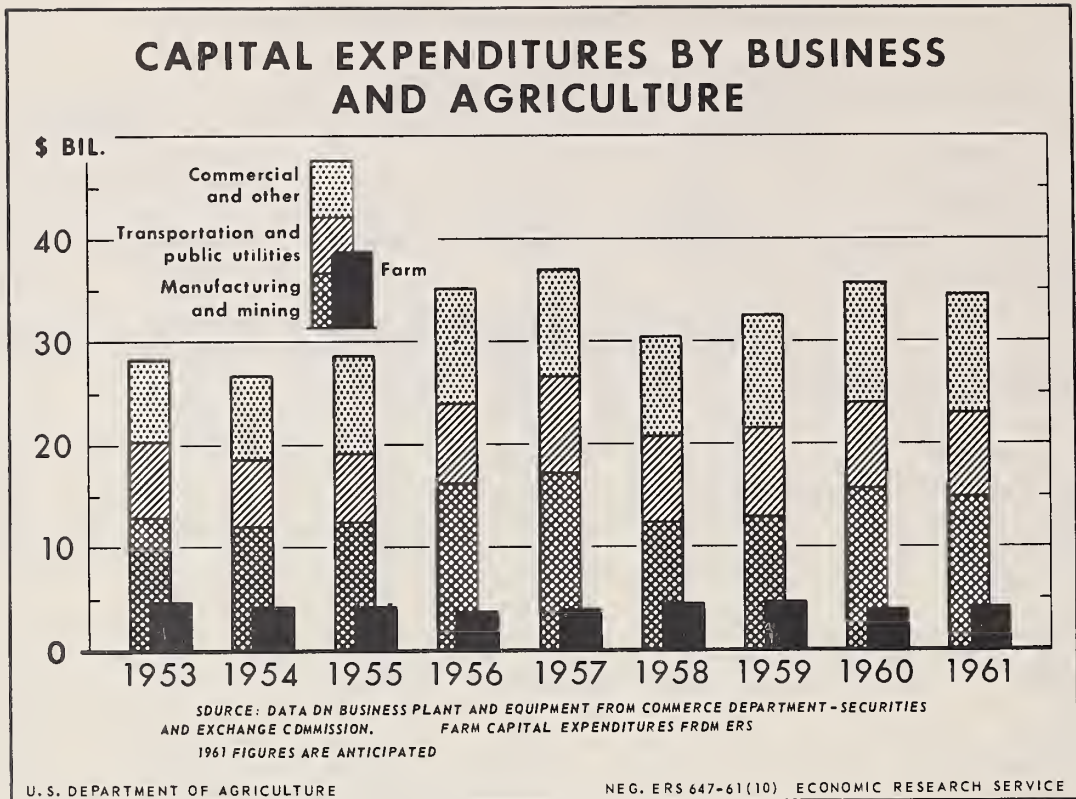


Figure 3

period, U. S. imports of goods and services declined as reduced economic activity eased the U. S. market for imports. Larger net exports and reduced capital outflows were major contributors to the improved balance of payments position this year.

Government expenditures by Federal and State and local Governments make up the remaining major source of total demand for goods and services. Federal spending increased in 1960 and 1961 primarily to accelerate major national security programs and help to moderate the 1960-61 decline in economic activity. Spending by State and local Governments continued to rise at a rate of \$3 to \$4 billion annually to support mounting needs for local Government facilities such as schools, transportation, and water and sewage systems for a growing urban population.

Combined spending by the Government sector for goods and services was at an annual rate of \$106 billion in the first half of 1961, about \$8 billion above a year earlier. Net receipts of the Government sector declined with the cutback in economic activity. As a result, the expenditure-revenue balance of the Government sector of the national income and products accounts shifted

from a surplus of about \$5 billion in the first half of 1960 to a deficit of more than \$7 billion in January-June this year. This turnaround, equal to about \$12 billion annually, played an important role in moderating the impact of the 1960-61 recession and in stimulating the recovery so far in 1961.

In summary, the turn from inventory liquidation to accumulation along with the rise in Government spending and a pickup in both capital outlays and residential construction provided impetus for the recovery in economic activity and the \$25 billion rise so far this year in the gross national product. Non-consumption outlays added directly about \$14 billion to total spending for goods and services. Indirectly, they also contributed to the \$11 billion increase in consumer buying through increased employment, a longer work week, and the increased flow of income to consumers. These relationships are illustrated for recent years in Figure 4.

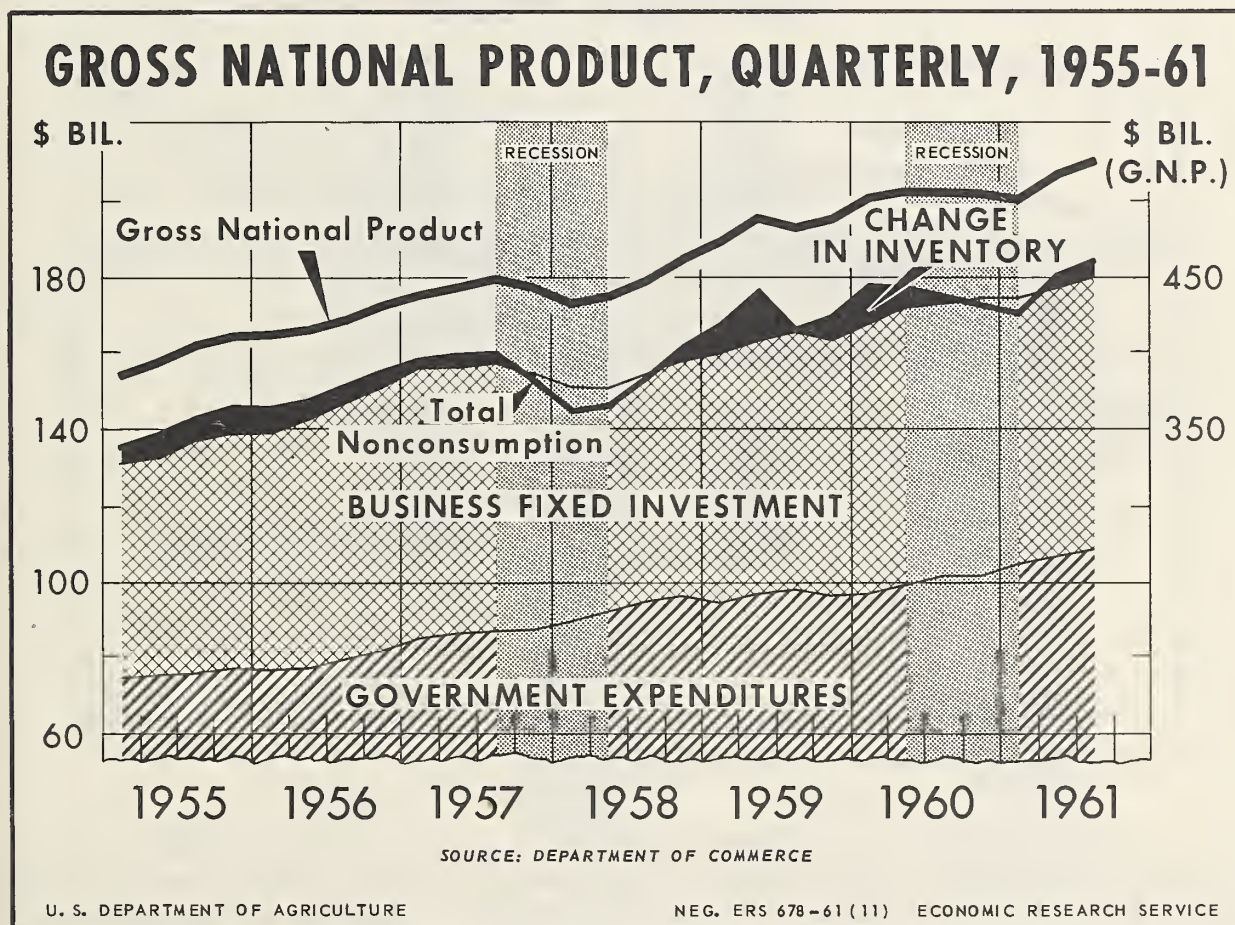


FIGURE 4

Output, Employment and Prices

Let us turn now to some of the impacts of demand changes on output and employment, as well as the combined influence of supply-demand conditions on price movements. With the recovery this year, the economy's total real output of goods and services increased about $4\frac{1}{2}$ percent. Output of the nation's factories and mines increased 10 percent. Production increases were fairly broad-based for most all groups of consumer goods, business equipment and materials. As output was curtailed during 1960, plant facilities were idled and output of manufacturers as a percent of capacity declined to an average of 75 to 80 percent in the first quarter of 1961. This situation has since improved with the rise in output this year.

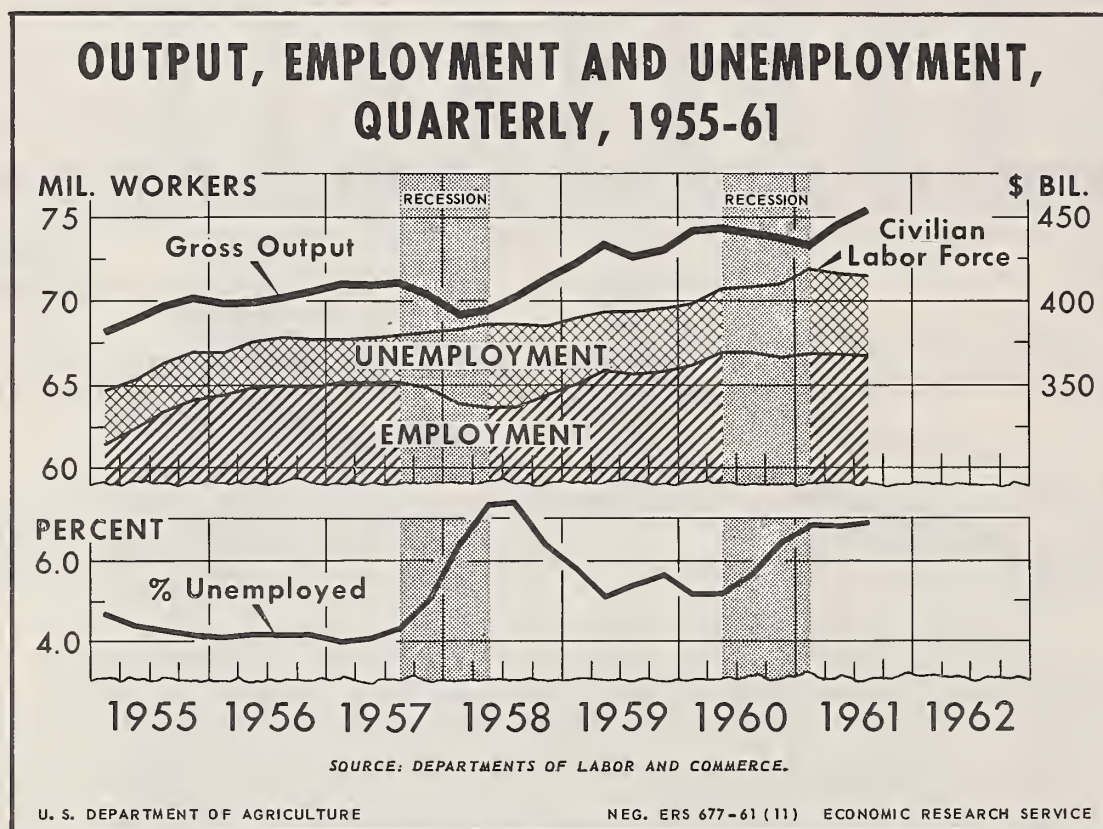


FIGURE 5

Nonagricultural employment increased some this year, the work week has lengthened and productivity rates apparently have risen. But, the total employment situation has not improved materially after allowance for usual seasonal factors. Moreover, there has been a sizable further increase in the labor force stemming to a considerable extent from the steadily increasing number of

women and younger workers of both sexes entering the labor force. Unemployment, consequently, has held close to 5 million persons or about 7 percent of the labor force, after seasonal adjustment. This compares with an average of around 5 percent in the second quarter of 1960. In recent months, reductions in the hard core of unemployment (those out of work 15 or more weeks) and in the number of unemployed males 20 years and older reflect some improvement in the employment situation. (Figure 5).

Commodity prices in general have held relatively stable in the past three years. But the cost of services has continued to rise, resulting in a gradual climb in the index of consumer prices. Retail prices in July-September averaged about 1 percent above a year earlier. The uptrend in service prices continues and prices of durable goods and food have firmed some in recent months. At wholesale, prices in general also have held relatively steady. Industrial crude materials declined as demand eased in 1960 and have risen some this year with the pickup in economic activity. Average wholesale prices for consumer and producer finished goods have changed little with average prices of nondurable goods shading a little lower in recent months. (Figure 6).

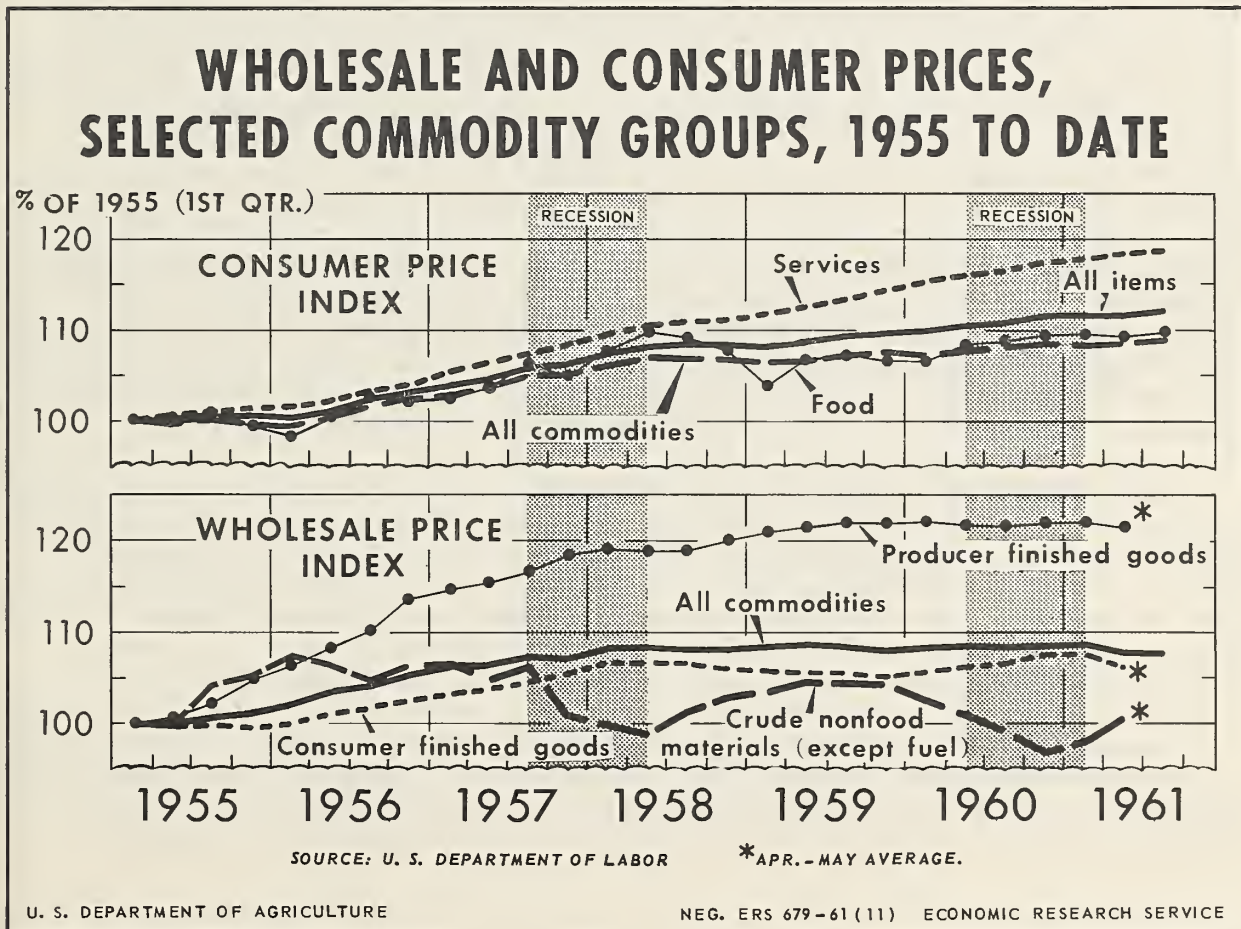


FIGURE 6

Economic Outlook, 1962

With the current situation and recent trends as a backdrop, turn your attention now to probable demand changes and their impact on the economy in 1962. In the Government sector, it appears that spending by Federal, State and local Governments will increase more in the coming year than in the past year. The 1962 Budget Review released in October estimates budget expenditures for fiscal 1961-62 at \$89 billion, $\$7\frac{1}{2}$ billion above 1960-61. Largely because of the recovery in economic activity so far this year, budget receipts are expected to rise about $\$4\frac{1}{2}$ billion to \$82.1 billion. The result, a budget deficit of \$6.9 billion in fiscal 1961-62 compared with \$3.9 billion in 1960-61.

National security, international, and space program requirements account for about two-thirds of the estimated $\$7\frac{1}{2}$ billion increase in budget expenditures. Agricultural programs and Health, Education and Welfare activities require about a fourth of budgeted expenditure increases.

The direct economic impact of budget expenditures and receipts can be measured in the framework of the national income and product accounts. These accounts include the trust fund transactions but exclude transactions involving existing assets and differ in timing and other respects from the budget. In this national account framework, Federal expenditures for goods and services may rise around \$7 billion in the coming year from about \$57 billion in the third quarter this year and average for the fiscal year about \$5 billion higher than in 1960-61. This increase would be more than double that during the previous year. In addition, the uptrend in expenditures by State and local Governments to provide schools and other facilities for a growing urban population may add as much as \$4 billion to the increase in Government demands for goods and services. If the recovery continues in 1962 as expected, both Federal and State and local Government revenues will rise. By the first half of 1962, the Federal transactions in the income and product accounts will likely turn to a surplus. Even though a deficit may continue on the State and local Government transactions, there would be a substantial over-all reduction from the large deficit in the first half of 1961. This shift would tend to dampen the impact of rising Government expenditures on national output.

The pickup in business outlays for new plant and equipment now underway will likely continue in 1962. The rise probably will exceed that during the 1958-60 recovery. Capital outlays at the trough of the 1960-61 recession were 11 percent below the peak in the third quarter of 1957. This reduced level of spending, together with rising costs and the relatively modest 1958-60 rise in fixed capital outlays, suggest that additions to the Nation's capital stock have slowed appreciably in recent years. (Figure 7).

Business spending for new plant and equipment rose about 4 percent in the third quarter and is scheduled to rise another 3 percent in the fourth quarter, according to the latest SEC-Commerce Department survey of business investment plans. Construction contracts for nonresidential building have

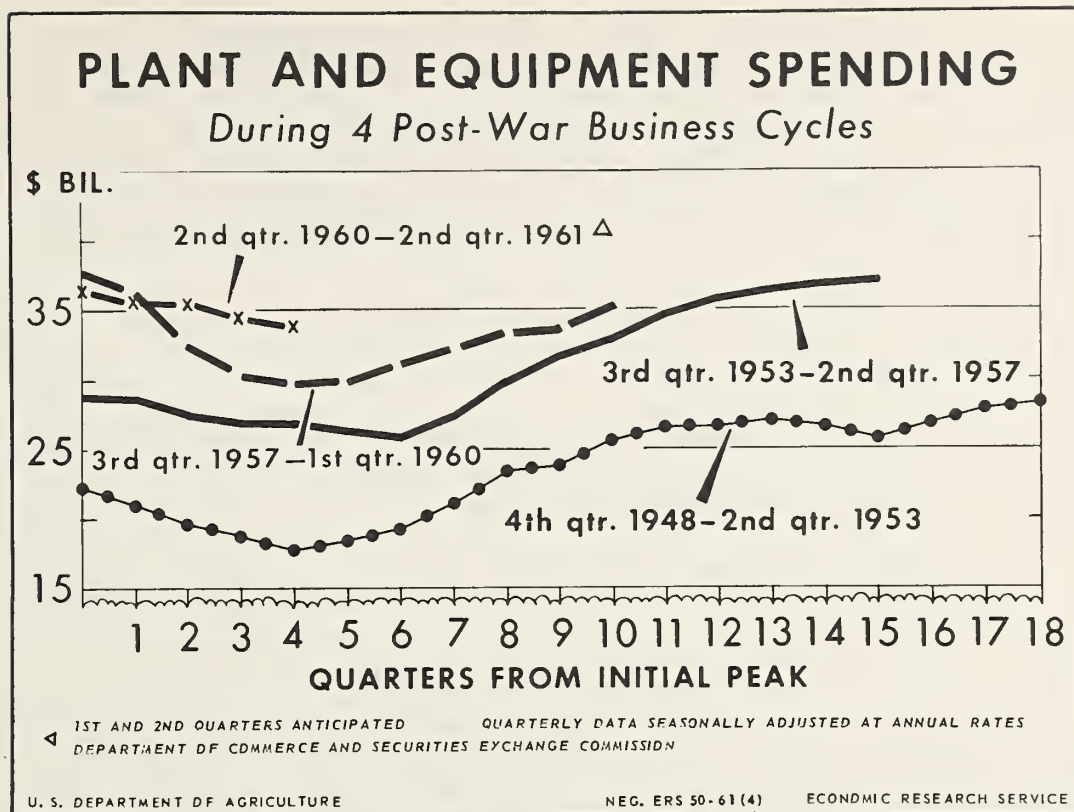


Figure 7

increased more than a third since last February. Manufacturers' new orders for durable goods in September were up 22 percent and production of durables 12 percent from their lows early in 1961. As demands on the economy increase, rising output will stimulate capital expansion in many industries in the coming year. As in past years, investment outlays for new products and for cost-reducing types of investment are also expected to add to capital spending. Possibly of greatest importance in contributing to the confidence of businessmen, as well as to their ability to invest, was the 14 percent increase in corporate profits in the second quarter of 1961 and the prospects for further gains this year and in 1962. Although operating rates will rise as output increases, excess productive capacity may be a moderating influence on the expansion plans of some industries in 1962. Substantial idle plant capacity still exists in a number of major manufacturing industries.

The rise in residential construction activity this year will likely extend into 1962, though further increases may be moderate. Private housing starts changed little from June to September following the moderate increase from reduced levels at the close of 1960. Despite relatively high vacancy rates, apartment construction is setting a new high, accounting for close to a

fourth of all housing starts in 1961. Single-family starts so far this year are down about 8 percent from a year earlier. The rate of new family formations has changed little in recent years but an increasing proportion of new families are concentrated in the younger age groups having lower incomes and more limited financial reserves. While interest rates on home mortgages are relatively high, consumer incomes are rising and Government policies are directed toward an easing of repayment terms and limiting increases in mortgage interest rates.

Inventory changes, as demonstrated earlier, are not only one of the most volatile elements of demand, but one of the most difficult to anticipate. Inventories were worked down during the 1960-61 recession and business sales in general have expanded contributing to reduced stock-sales ratios. Some further buildup in business inventories can be expected as economic activity expands. However, much of the main impact of inventory changes on total demand and on economic activity has already occurred (Figure 4).

With expanding economic activity, the increase in private investment outlays in the coming year may about match expenditure increases indicated for the Government sector. If such increases in nonconsumption spending materialize, they will contribute to further gains in output, employment and consumer incomes. Recent relatively high personal savings and declines in installment credit outstanding also place the consumer in a better position to buy. Increases in consumer buying, consequently, are expected to be fairly general. A bigger auto year is in prospect for 1962. Larger sales of other durable goods and nondurable goods are indicated and the uptrend in expenditures for services will continue in 1962.

In summary, indicated increases in spending point to a rise in the gross national product of possibly 8 percent or so in the coming year. It is not expected that such an increase would generally overtax our productive capacity or the labor supply. Price increases, consequently, are expected to again be moderate in the coming year. Considerable unused plant capacity still exists in some major industries. Moreover, competition from foreign producers is expected to increase.

The farmers' interest in general economic activity stems primarily from the influence of income changes on consumption and prices of many major farm products. He is also concerned about the influence of price trends on his production costs and general "terms-of-trade" with the nonagricultural sector of the economy. As indicated above, a higher level of economic activity seems virtually assured for 1962. With a rising flow of income to consumers and relatively small price increases, a substantial further pickup in real consumer income is likely. Rising incomes coupled with population growth will result in a stronger domestic market for food and other farm products in 1962.

THE NATIONAL HEALTH SURVEY PROGRAM AND
SELECTED RURAL HEALTH INDICATORS

Talk by Elijah L. White

U.S. Department of Health, Education, and Welfare
at the 39th Annual Agricultural Outlook Conference
Washington, D.C., 9:15 A.M., Thursday, November 16, 1961

This presentation will be divided into two basic parts: First - I should like to devote a few minutes to a description of the basic program of the National Health Survey. Secondly - I shall present some aspects of health in the rural United States with particular reference to a comparison with urban areas and for different regions in the United States.

The National Health Survey is not a single survey - rather it is a program of surveys which attempts to develop and utilize several methods of measuring morbidity and aspects of health care. This program is a relatively new one, having been authorized by Congress in July 1956. However biased I may sound, we regard this as a signal advance in creating an agency devoted to a more systematic effort to provide base line statistical data which are undoubtedly needed by an army of people engaged in planning and serving the health needs of our population. Those who need more information include a wide range of organizations and programs: from the drug and appliance manufacturers to the schools of medicine and public health; to the local, state and Federal administration of public health programs; to those who must plan and provide hospital beds; to those concerned with the health manpower needs of our country; to the health insurance industry; to voluntary health organization and to public welfare organizations.

Thus the needs are varied and impressive. Now, just where or how does the National Health Survey propose to contribute to this picture? The program is engaged in three basic types of surveys. Perhaps the best known, and certainly the most advanced in point of time is the administration of a health interview to a national sample of households. Each week, we interview a probability sample of the households of the United States. The size of our sample accumulates to approximately 36,000 households and 130,000 persons each year. The National Health Survey has a working relationship with the Bureau of the Census in which there is cooperation in the planning of the surveys, and the data are collected by a special core of Census interviewers.

Let me briefly tell you about three of our data collection programs: 1) Health Interview Survey, 2) Health Examination Survey and 3) Health Records Survey. The Health Interview Survey is principally concerned with selected aspects of the economic, personal, and social impact of illness on the population. For example, we seek to measure work loss and school loss days due to illness, the number of disability and bed-days, limitation of activity and mobility, the utilization of doctor and dental services, hospital discharges, the proportion of hospital costs met by insurance, the number of edentulous persons, the number requiring personal care in the home, the number of persons covered by various forms of health insurance, the number and type of accidents and injuries, and the use of appliances and special aids. In addition we gather data on characteristics of persons such as age, sex, race, usual activity, current employment, residence, income, and recently we have added occupation and industry.

Data based on the household interview survey have been published in more than 30 reports to date and cover most of the topics enumerated above. Most of our data have been issued as only national estimates, although several have included data for urban-rural residence and for geographical regions, divisions and several of the largest metropolitan areas.

A second program of surveys is known as the Health Examination Survey. Data gathered in this program are secured from clinical examinations and laboratory tests and measurements administered to a cross section of the United States population brought into a set of mobile caravans staffed by physicians, dentists, nurses, and laboratory technicians. This is a newer program than the household health survey and is currently engaged in data gathering on a 6,000-person sample of ages 18 through 79. It should be noted that the examination is not a complete physical examination - rather it is limited to certain areas of examination which concentrate on cardiovascular disease, arthritis and rheumatism, diabetes, a dental examination, sight screening, hearing threshold tests, X-rays, laboratory tests, and a series of body measurements. Three basic problems limit the content of this examination (1) the need for standardized examination techniques and criteria for interpretation, (2) the necessity of limiting items to those which can be secured on a single visit and (3) response considerations - some procedures if included might significantly reduce the willingness to cooperate in the survey. Great care and special equipment have been employed to do a very thorough job in those areas which have been selected for inclusion in the examination procedures. No reports have been published from this survey because the data collection phase will

not be completed on the first cycle of examinations until October 1962. However, there are several publications available on the methodological studies which are carried out in preparation for the survey, e.g., on the creation of a standardized medical history questionnaire, a brief cardiovascular examination, and the attitudes of people towards cooperation in a health examination survey.

A third major program of data collection is now about to come into existence - the health records survey. We refer to this as our 'infant industry'. The objectives of this branch are to utilize records of nursing homes, hospitals, and perhaps physician records, for additional health information. Collection of this type of data, especially the data from institutions, is viewed as necessary to supplement data in the household survey which by design is limited to the civilian, noninstitutional population of the United States. These sources will provide different and important types of health data not available from any other source.

To date we have explored and used a supplemental survey of death certificates and questionnaire follow-up to obtain from hospital records data on utilization by persons who died during the time period of our health interviews. Presently in the design and pretesting phase is a national survey of nursing homes which will get into the data collection phase in the next fiscal year.

This three-way approach to data collection has been selected to provide a wide range of health information. For example, if we want to know more about the social and economic impact of illness on our population, this can be secured best through a series of household interviews. On the other hand data on the medical diagnosis and extent of illness cannot be precisely obtained from lay interviews. This requires collection of information through clinical examination and objective laboratory techniques. Obviously, knowledge of utilization of hospitals and institutional services must involve a more detailed collection of data from these sources. With these approaches we hope to provide a wider range of health data to a variety of the consumers mentioned above.

One of the most interesting aspects of the program of the National Health Survey is the work done in its developmental and evaluation studies. I have already alluded to some of the developmental studies carried out in the health examination survey. In addition, we have a series of methodological studies which were designed for evaluation of the data gathered in the different surveys, but especially the health

interview survey. By means of "record check" studies we have been studying how well we are able to elicit with the household interview technique data on chronic conditions and also on hospital utilization. These have been accomplished by a comparison of data from a known or "captive" population, on whom certain records exist, with the results obtained in our household interview. These studies have been and are being done in cooperation with selected hospitals, the Health Insurance Plan of New York City, and the Kaiser Health Plan of California. Some of this information is now available in our D series publication and more will be forthcoming.

Next, I would like to mention that the content of our surveys changes from year to year. While a basic core of items remain on our household survey questionnaire, we do have a rotation plan for new items which permits periodic collection of data on more health topics. The next phase of our Health Examination Survey will undoubtedly shift from examination of persons 18 through 79 years of age to those 6-17 years of age. This will necessarily entail a different examination content and use of pediatricians instead of internists as medical examiners.

Finally, to round out the picture of our data collection, let me mention the contractual arrangements by which some of our work is accomplished. Our cooperative arrangements with the Bureau of the Census were referred to above. In addition, we have been fortunate in securing special contract arrangements for most of our developmental and evaluation studies with several well known organizations who shared an interest in our problems. These have included the National Opinion Research Center of the University of Chicago, the Survey Research Center at the University of Michigan, Michael Reese Hospital in Chicago, the Health Insurance Plan of New York, the Professional Activity Study group in Michigan, the Southern California Permanente Medical Group, and the Stanford Research Institute.

Now, let me turn to the presentation of some selected results of our Health Interview Survey which will serve as some broad indicators of rural health status. This will not be an analytical presentation about rural health but rather should be viewed as some bench mark or descriptive data relating to people living in rural farm areas. I have prepared a number of slides from charts which will show several aspects of health status for the urban, rural nonfarm and the rural farm population, some by age distribution and others by regions of the United States. The statistical data on which the charts are based are reproduced in tables at the end of this paper.

It is important to note here that these data are based on the old definition of farm residence where the respondent was asked "Is this house on a farm or ranch?" Information tabulated by the new definition of land usage and value of products will not be available for some months. However, for methodological purposes, we have produced some experimental tabulations for one quarter of data using both definitions. The results lead us to expect that the revised definition of rural farm residence will not lead to any remarkable changes in the kinds of the data presented in this paper.

It should also be reemphasized that estimates produced by the National Health Survey are based on a sample of the population, and, as such, are subject to sampling error. The magnitude of the sampling error is related to the size of the estimate, with small estimates subject to more sampling variation. The sampling error of a rate is dependent on the size of the estimate and the population base from which it is derived. In a presentation such as this, where only rates are presented as a basis of comparison of illness and disability in population groups, it is difficult for you to assess the stability of such rates. Therefore, I shall attempt to point out instances where differences in rates cannot be accounted for as a result of sampling variation. The rates which have been tested for significance in this paper were only those for the totals of urban and rural population, and these statements of significance do not apply to the distribution for each age group or region.

As a setting for these data, let us look briefly at the age distribution used for the population bases of the health indicators which we shall consider. (Chart 1, table 1)

The rural farm population represents about 12 percent of the total population in each age group except for the group 25-44 where it drops somewhat lower to 10.4 percent. This is in contrast to the urban pattern where the proportion of urban population becomes greater with increasing age. The pattern for rural nonfarm population tends to be the reverse of the urban pattern.

One axis on which we might measure health is the number of persons who report one or more chronic conditions. (Chart 2, table 2) Operationally defined in the National Health Survey a condition is chronic (a) if it has lasted three months or longer at time of interview or, (b) if it is a condition which appears on selected lists of chronic conditions and impairments which are specifically asked about in each household. These data clearly indicate no significant differences be-

tween the total urban and rural farm population. However, the percent of the rural farm population with one or more chronic conditions at ages 25 and over is consistently higher than the corresponding age groups in the urban population.

For illustrative purposes, the next two charts indicate the prevalence of two major types of chronic conditions, heart conditions and asthma-hay fever. First, let us look at the chart on heart conditions. (Chart 3, table 3)

For the entire country, the rate for heart conditions in the rural farm population is not statistically significant from that for the urban population. However, when the geographic regions of the country are considered separately, the most obvious difference in urban and rural rates lies in the Southern region, where the rate is appreciably higher for the rural population. On the other hand the prevalence of asthma-hay fever conditions (Chart 4, table 4) is significantly higher in urban areas than in rural farm areas. Again, the greatest difference was found in the South where the rate for asthma-hay fever is some 25 percent lower in the rural farm population.

Next, let us turn to some measures of the social and economic impact of illness on the rural and urban populations. Data in the next three slides present information on the percentages of persons with any degree of activity limitation due to chronic conditions, the number of restricted activity days per person per year, and the number of bed-disability days per person per year. Limitation of activity may mean inability to work, keep house or go to school, limitation in amount or kind of these activities, or limitation in the kind or amount of recreational or social outside activities. Bed days represent a particular activity restriction, but the concept of restricted activity days is a broader term which not only includes days of bed disability but also other days on which a person reported that he had to cut down on his usual activities because of illness. Both the bed days and other activity restricted days represent unduplicated days per person. For instance, if a person was in bed because of more than one condition, the day of bed disability was counted only once for the person even though it was ascribed to each of the conditions. We find that activity limitation is significantly higher in the rural farm population than in other residence areas, and particularly so at all ages over 25. (Chart 5, table 5)

The data on restricted-activity days also indicate a significantly greater amount of disability in the rural farm group. (Chart 6, table 6) However, using the more restricted measure, bed-disability days, as shown in Chart 7, table 7, the level was not significantly different.

The last three charts present some indicators of the utilization of health services. The first is the reported number of physician visits per person per year (Chart 8, table 8). Note that the rural farm level of utilization of physician services is significantly lower than the level in urban areas. When the number of dental visits is used as a measure of utilization of health services, the same pattern of lower utilization in rural farm areas is present. (Chart 9, table 9) Finally, in the number of hospital discharges per 1,000 population per year, we again find a significantly lower rate of utilization in the rural farm population. (Chart 10, table 10)

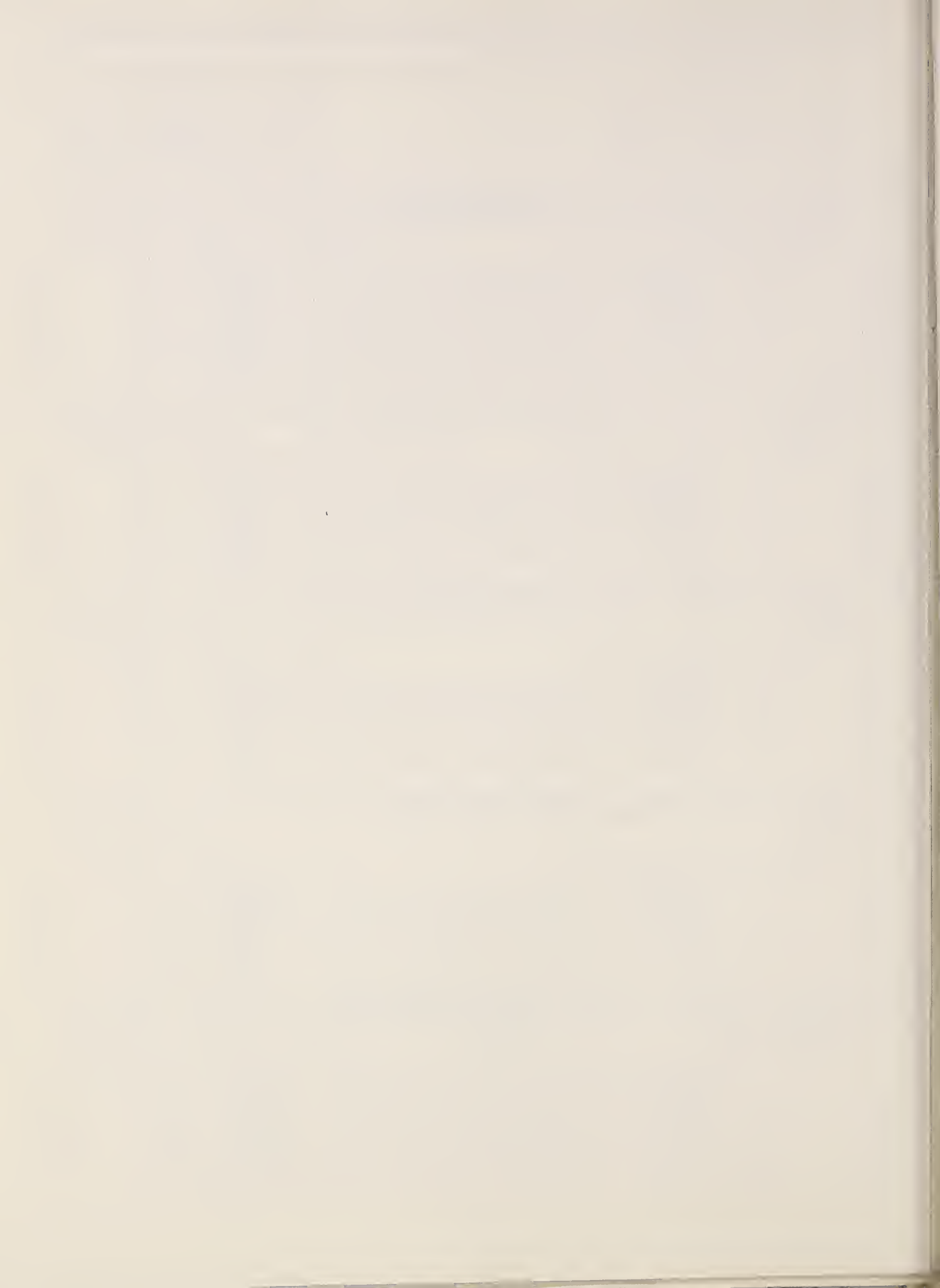
For a more detailed presentation of data by place of residence, may I refer you to the National Health Survey's publication Series C-No. 5 entitled Selected Health Characteristics by Area, Geographic Regions, and Urban-Rural Residence, United States July 1957-June 1958. Of particular interest might be the data presented for a number of other chronic conditions. This publication also includes a description of the methods used in collecting the data and a facsimile copy of the questionnaire used.

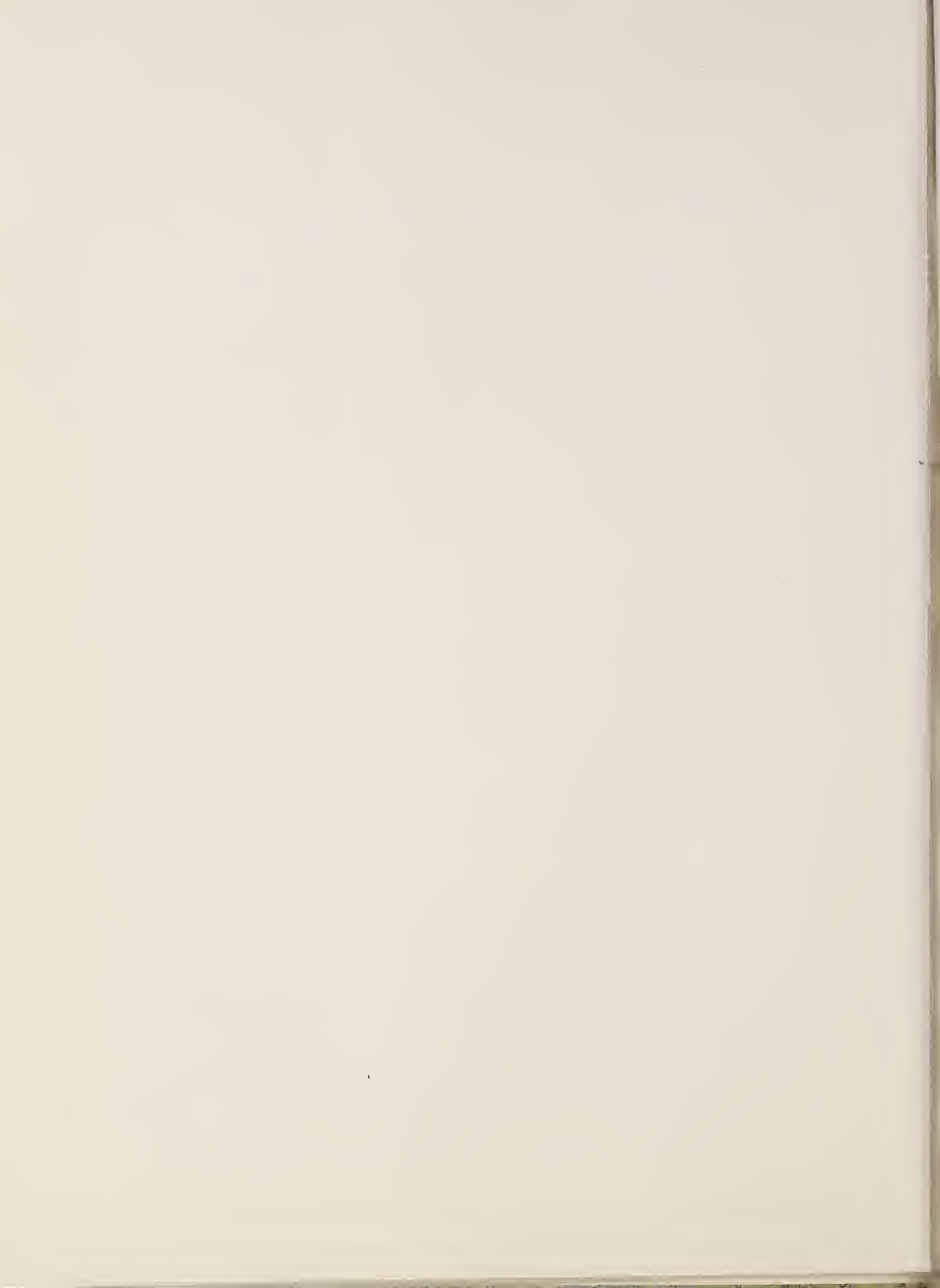
I shall be happy to entertain any questions which you may have.

	Residence		
	Urban	Rural nonfarm	Rural farm
1. Percent of the total population residing in urban, rural nonfarm, and rural farm areas according to age: United States, July 1959-June 1960 (Source: Series B, No. 29)			
All ages-----	60.0	27.6	12.4
Under 25-----	56.8	29.9	13.3
25-44-----	59.9	29.7	10.4
45-64-----	64.9	22.4	12.7
65+-----	65.9	21.9	12.2
2. Percentage of persons with 1+ chronic conditions by age according to residence: United States, July 1959-June 1960. (Source unpublished NHS tabulations)			
All ages-----	41.2	40.8	41.5
Under 25-----	21.4	20.9	18.5
25-44-----	46.7	51.4	51.3
45-64-----	58.2	64.1	67.5
65+-----	75.2	81.8	82.2
3. Prevalence of heart conditions per 1,000 population by residence and region: United States, July 1957-June 1959 (Source: Series C, No. 5)			
All regions-----	29.5	28.0	33.1
Northeast-----	30.4	30.0	33.9
North Central-----	29.0	28.2	30.7
South-----	27.4	28.7	34.9
West-----	32.3	23.4	31.9
4. Prevalence of asthma-hay fever per 1,000 population by residence and region: United States, July 1957-June 1959 (Source: Series C, No. 5)			
All regions-----	55.2	56.0	45.7
Northeast-----	48.2	54.1	39.1
North Central-----	50.8	47.7	45.1
South-----	57.5	53.5	42.2
West-----	75.3	79.1	74.2
5. Percentage of persons with any degree of activity limitation due to chronic conditions by age according to residence: United States, July 1959-June 1960 (Source: unpublished NHS tabulations)			
All ages-----	10.2	9.9	13.5
Under 25-----	2.3	2.1	2.7
25-44-----	7.7	8.3	11.3
45-64-----	15.8	19.6	24.2
65+-----	39.7	48.8	53.5

Selected Indicators of Health Status from the National Health Survey--Continued

	Residence		
	Urban	Rural nonfarm	Rural farm
6. Number of restricted-activity days per person per year by residence and age: United States, July 1959-June 1960 (Source: Series B, No. 29)			
All ages-----	15.5	16.5	18.7
Under 25-----	11.0	11.2	9.6
25-44-----	13.5	14.1	16.0
45-64-----	19.4	23.8	29.0
65+-----	32.3	46.5	51.8
7. Number of bed-disability days per person per year by residence and age: United States, July 1959-June 1960 (Source: Series B, No. 29)			
All ages-----	6.0	6.0	6.1
Under 25-----	4.8	4.6	3.9
25-44-----	4.9	4.8	4.7
45-64-----	7.2	7.6	8.5
65+-----	11.8	17.4	16.3
8. Number of physician visits per person per year by residence and age: United States, July 1957-June 1959 (Source: Series C, No. 5)			
All ages-----	5.3	4.9	3.8
Under 25-----	4.9	4.5	3.1
25-44-----	5.1	4.8	3.9
45-64-----	5.6	5.5	4.2
65+-----	6.9	6.7	6.0
9. Number of dental visits per person per year by residence and age: United States, July 1957-June 1959 (Source: Series B, No. 15)			
All ages-----	1.8	1.3	0.8
Under 25-----	1.8	1.3	0.9
25-44-----	2.0	1.5	0.9
45-64-----	1.7	1.2	0.8
65+-----	0.9	0.5	0.5
10. Number of hospital discharges per 1,000 population per year by residence and age: United States, July 1958-June 1960 (Source: Series B (to be published))			
All ages-----	11.5	12.3	9.6
Under 25-----	9.2	9.6	6.5
25-44-----	14.5	15.5	13.7
45-64-----	11.3	13.1	10.4
65+-----	14.0	16.2	14.5





UNITED STATES DEPARTMENT OF AGRICULTURE

THE OUTLOOK FOR CONSUMER, BUSINESS, AND GOVERNMENT DEMAND

Remarks by Louis J. Paradiso
Assistant Director-Chief Statistician, Office of Business Economics
Department of Commerce
39th Annual National Agricultural Outlook Conference
November 13, 1961

Some important questions need to be considered in connection with the near-term prospects for business. As already indicated, economic activity has recovered swiftly; if the GNP should reach an annual rate of around \$540 billion in the current quarter, which is highly probable, then the advance from the first quarter low would be nearly 8 percent, and mostly in physical volume. This spurt in GNP, however, has been accompanied by: (1) sluggish retail sales which have been bumping along on a plateau for some time and thereby have parted company with rising incomes; and (2) a slow pickup in business plant and equipment outlays.

The course and pattern of business activity next year will be determined essentially by what we do as consumers about buying goods and what businessmen do about purchasing capital goods. I shall speak later of the Government role.

A. Consumer spending -- where it is going and what will determine its strength? The following points are pertinent:

1. Contrary to views expressed by some, consumer buying of goods and services in total has not been lagging significantly in the recent period. In fact, consumer purchases of goods and services in total have been about in line with changes in consumer incomes after taxes. For example, consumer expenditures in the third quarter just past were 93 percent of disposable personal income, about the same as a year ago. It is true, however, that purchases of goods have slowed down, reflecting a shift in buying to services. To illustrate, in 1959 consumer spending for services accounted for 39¢ out of the spending dollar whereas today services account for 42¢. Increases in service expenditures have ranged over a wide category of items including household operation, housing, medical care, autos and other durable goods repairs, private education, and travel.

2. The increasing importance of services in the consumer budget may, in part, be due to shifts which are occurring in the age composition of the population. The group of 18-21 year olds has been in a rising phase in the past several years and is expected to increase sharply through 1965, after which it will rise more slowly; this is the college age group and we all know families require considerable funds to put their children through college -- such expenditures go, in large part, for services including private education, communications, and travel. The age group 25-34 has shown little change in the past several years and will not rise significantly until after 1965; this is the group which accounts for most of the home buying and for purchases of durable goods. Thus, we may be in an interim period when the demand for consumer hard goods may be limited until the appropriate "buying" age groups are in the rising phase. If this argument is valid, purchases of goods should increase in importance after the middle of this decade. I don't mean to imply that population distribution is the entire explanation for the shift or that it even accounts for a large part of it; other factors are of course involved such as relatively high prices for many goods and changes in consumer habits and tastes.

What about the near-term prospects for consumer demand?

Information up to this point indicates that buying of durable goods will be higher this quarter compared to the third by 5% or more. Domestic car sales in October were at an annual rate of 6.3 million, a better performance than in over a year. Some analysts in the industry forecast sales of 7 million cars (domestic and imports) in 1962 compared with 5.9 million this year. The 7 million total would be about in line with expected incomes, prices, and other factors. If auto sales should turn out to be substantially lower, however, the automobile industry would not contribute its share to the expected advance in total economic activity next year. At the moment a 7 million car market for next year looks reasonable; so far public response to the '62 models appears to be favorable. But the basic strength of the market is yet to be tested.

Furniture sales may be expected to increase due to the anticipated advance in incomes and a somewhat higher rate of residential construction. A continued rise in nondurable goods and services may be expected if only because the population will be growing. The concentration on services may require paying some attention to training and retraining of workers for jobs in service industries.

In summary, total consumer expenditures should rise throughout next year and a year from now they should be substantially higher by perhaps as much as 7% above the present rate. Of course, changes in incomes and in the volume of consumer spending are in large part dependent on what happens elsewhere in the economy.

- B. Business purchasing. Business expenditures for plant and equipment usually lag in the initial phases of a business recovery, and this has been so this year. Some rise occurred in third quarter and a further increase is expected this quarter. But businessmen are not programming large increases in capital outlays. This is suggested by various surveys but more specifically by the backlogs of unfilled orders held by machinery companies. These have not risen much so far. If expanding orders are not in sight and backlogs of orders are not accumulating, businessmen do not have one of the most powerful incentives for capital expansion. Furthermore, in product after product and industry after industry, rates of operations are considerably below capacity. However, some current influences conducive to expansion are: (1) continued rise in costs -- this is a long-run factor; (2) increasing profits associated with the rapid recovery; and (3) generally rising demands and improving rates of operations.

The question is whether aggregate demand will expand sufficiently and be maintained at high rates so as to result in near full use of productive capacity and other resources. While it is true that demands are now rising, they are not yet providing a strong incentive to warrant a large rise in plant and equipment investment. Yet, we must have a large and sustained advance in capital goods expenditures if we are to achieve full employment and a more rapid growth rate than we have had in the past.

Increasing costs will be an important consideration in investment programs next year, as has been the case in the past. As a result of this pressure, business will purchase new and better plant and equipment next year and total productivity will increase. But increasing costs will also put pressures on prices. I would expect some price advance next year of moderate proportions. However, I believe that among the fruits stemming from increasing productivity should come price reductions, better quality products, and the marketing of more new products.

In summary, for the business sector, it appears on the basis of the partial information we now have that business plant and equipment expenditures next year may be up only moderately from current rates, with perhaps some acceleration coming later in 1962.

- C. Inventories. The inventory turnaround this year has accounted for one-third of the total advance in GNP (1st Q to 3rd Q). A large inventory rise may be expected in the current quarter, as reported by manufacturing firms to the Office of Business Economics of the Department of Commerce and as indicated by

the rising stocks of autos in dealer showrooms. A large inventory accumulation may well occur during the first half of 1962 partly as a reaction to the labor-management negotiations which will come up in a major industry. After that, inventory additions may be reduced and geared to support the prevailing market and production patterns.

- D. Government. The government programs will provide a strong stimulus to economic activity. On a GNP basis, the rise in Federal purchases of goods and services from present rates to a year from now may be as much as \$7-\$8 billion, at annual rate, with most of it resulting from increases in national security expenditures. With business activity on the rise, the projected administrative budget deficit for fiscal 1962 will become more favorable as we move along next year. Of course, the Federal Government's fiscal policy in the period ahead will be in large part conditioned by the course of international developments. State and local government purchases of goods and services for payrolls and school building and highways will continue the uptrend and in 1962 may rise by something like \$4 billion above this year's total.
- E. Summary. Current forces and known programs suggest that the economy will be in a rising phase throughout the coming year with the GNP advancing by as much as 7-8 percent next year compared to this year. More specifically, however, given present government programs, the extent of the rise will depend on consumer demand for durables and on the strength of business capital investment programs. Although a continuation of the present business uptrend is a welcomed development, at the moment the indicators do not point to a strong enough business advance next year to produce a full employment economy. Even if the unemployment rate should get down to, for example 5%, most persons would agree that this is too high. I think that the increasing domestic and international pressures require an economic climate of large and expanding demands by both business and consumers in order that we may speedily attain a full employment economy and a faster rate of economic growth than we have had in the past.

OUTLOOK FOR MEDICAL CARE COSTS IN 1962

Talk by Ethel D. Hoover
 U.S. Department of Labor
 at the 39th Annual Agricultural Outlook Conference
 Washington, D. C., 10:00 A.M., Thursday, November 16, 1961

INTRODUCTION

Last year, a committee of Consultants on Medical Research stated in its report that "The United States today is experiencing the development of a medical research program of a vigor and productivity unparalleled in history" but that -

"The magnitude of the problems of disease and disability confronting our people today is still so vast as to be beyond the comprehension of most of us. The nature of our enemies has shifted from the communicable diseases to the chronic disorders, and especially to cardiovascular-renal disease, cancer, mental illness, and other problems predominating in the older age group which has been greatly increased in numbers. Aside from the unhappiness and tragedy represented in the incidence ratio of these conditions, we should remember that the present cost of disease and disability to our nation is estimated as at least \$35 billion a year. Only through medical research and the application of its findings can these losses be reduced." 1/

The great advances that have been made in diagnosis and treatment and the economic considerations of cost are two subjects that are tied together in one form or another in a considerable portion of the immense mass of materials that are now available on medical care. In this half hour today, I can only touch on the subject of medical care costs. So I will confine my discussion to the changes in prices for medical care as measured by the Bureau of Labor Statistics' Consumer Price Index and to the importance of medical care in families' expenditures and in our national accounts.

Changes in medical care prices

Over the whole postwar period, prices for medical care increased more rapidly than the Consumer Price Index for all items combined--about 60 percent for medical care as compared with 28 percent for all items. The most distinctive characteristic in the movement of medical care prices has been the relatively slow but continuous upward movement. Of the 176 monthly changes from January 1947 to September 1961, the medical index has gone up on 164 separate occasions, remained stationary 9 times, and decreased 3. The increases for medical care corresponded very closely with the steady upward trend for all services, until the last few years when medical care prices rose at a somewhat faster pace. Prices for all commodities combined fluctuated within a relatively narrow range--particularly since 1950. These contrasting movements in the postwar period are shown in chart 1.

1/ Federal Support of Medical Research, Report of the Committee of Consultants on Medical Research to the Subcommittee on Departments of Labor, and Health, Education and Welfare of the Committee on Appropriations, U.S. Senate, 86th Cong. 2nd sess. Washington, May 1960, p. xiii.

An even greater contrast in the movement of commodities and services is evident when comparison is made with the prewar period. As you can see from chart 2 (left side), the typically slow moving services increased less during the war than commodities--13 percent for services from 1939 to 1946 as compared with 55 percent for commodities. In these 7 years, medical care prices went up 21 percent. Subsequent price changes put medical care at almost the same level above prewar as all items in the index (all items 113 percent and medical care 115 percent increase from 1939 to 1960).

Note: The right hand side of chart 2 was included to indicate the effect of the change in base period in computing the CPI. While the levels of the indexes are changed, percentage changes from one period to another are the same, regardless of the base period used.

The postwar period can be divided into three parts (see table 1).

1) The immediate postwar and Korean period from 1946 to 1952. Prices for commodities rose rapidly through 1948 with the end of price controls and heavy demand for goods not available during the war, declined for about two years and then increased again during the Korean period. Services showed a steady upward pace during these years. The net change in these 6 years was 36 percent for all items, the average of an increase of 40 percent for commodities and 31 percent for services. Prices for all medical care increased 34 percent.

2) A period of relative stability for 3 years from 1952 to 1955. During these 3 years, the all items index increased less than 1 percent. A decline of over 2 percent in commodities was more than offset by the continued uptrend for services. Medical care prices in these 3 years increased about 9 percent, again corresponding to the increase of about 9 percent for services generally.

3) Relatively moderate price increases for 5 years from 1955 to 1960. Changes among the major groups in this period ranged from an increase of 22 percent for medical care down to 5½ percent for apparel. Commodities generally increased by an average of 8 percent compared with 16 percent for services. In the first 9 months of 1961, the index for medical care continued upward, increasing by 1.8 percent from January through September. (Table 2 shows the importance of each of the major groups in the Consumer Price Index, the percentage changes for a 5-year period from September 1955 to September 1960 and for the past year--September 1960 to September 1961. This table also breaks down the total change for each of these two periods into the amount that each group contributed to the total change. In the 5-year period, medical care accounted for about 1/10 of the change in the all-items index and for about 1/5 in the past year.)

With this general background of the long term changes in prices of the medical care group as a whole, I would like to turn to the variations in price changes within the group. Chart 3 breaks the total into two parts--commodities (i.e., prescriptions and drugs) and services (i.e., physicians' fees, dentists' fees, eye examination and glasses, hospital room rates, and health insurance). It is immediately evident that the steady increase for medical care in the postwar period has been due primarily to the increase in services. The index for all medical care on the 1947-49 base stood at 156 for the year 1960, with medical care services at 163 and prescriptions and drugs at 123.

Chart 4 shows the great diversity of price changes among the individual items of medical care services since December 1952 (the first date for which the CPI in its present form was available). The major price increases occurred for hospital room rates and for hospitalization insurance. These two items were the predominant influence in the postwar rise. The increase for professional services from December 1952 to September 1961 was 30 percent or less, compared with a rise of 65 percent for hospital room rates and more than 85 percent for hospitalization insurance. In the first 9 months of 1961, the room rates rose 7 percent, insurance 5.1 percent, physicians' fees 1.7 percent, and dentists' fees 0.7 percent. Prices for prescriptions and drugs declined about 1/2 percent. Changes for the individual medical care items for selected long and short term periods are given in tables 3 and 4.

I would like to interpolate a few comments on the frequency of price changes for medical care items. Our reports indicate that fees charged by any one physician changed infrequently--usually the interval between changes was several years. Changes in hospital room rates and in hospitalization insurance premiums have been made somewhat more frequently than physicians' fees in recent years, and changes in dentists' fees less frequently. The steady month-to-month increase in the medical care index is thus the result of averaging unchanged prices with those that changed, as different levels of fees or charges were put into effect gradually.

Although the increases in medical care prices (and costs) have received marked attention in the past few years, particular interest has been directed to the striking advances for hospitals and hospitalization insurance, and to the levels of prices charged for the new drugs.

Explanations and reasons for the increase in hospital room rates and in the high cost per hospital day 2/ usually refer to the increases in earnings of hospital personnel, the additional expense of an increased volume of paid labor, and higher prices for supplies and equipment. Of these, the reason given most emphasis is the increased pay, with the number of paid employees in hospitals next in importance. According to a recent study by the Bureau of Labor Statistics 3/, occupational earnings in private hospitals were substantially higher in 1960 than in 1956-57 in 15 areas surveyed. The increases ranged from less than 5 percent in some instances to more than 50 percent in others, with most occupations within the range of 15 to 24 percent. The larger number of people employed is associated with the increased use of hospitals and with the additional services that are now performed in them. Dr. Russell A. Nelson, director of Johns Hopkins Hospital in Baltimore, summarized some of the available data 4/, indicating that the biggest hospital expense is the payroll--about 60 percent of a hospital's costs. The average payroll cost per patient in voluntary

2/ A composite of all costs per patient to the hospitals increased from \$9.39 in 1946 to \$23.12 in 1955 and to \$30.19 in 1959, according to figures prepared by the American Hospital Association, as given in Source Book of Health Insurance Data, 1960, Health Insurance Institute, N.Y., p. 56.

3/ Earnings and Supplementary Benefits in Hospitals, mid-1960 (BLS Bull. No. 1294, May 1961), p. 5.

4/ In an interview as reported in the Washington Daily News, March 21, 1960. Figures are from studies of the American Hospital Association.

short term general hospitals increased from about \$5 in 1946 to nearly \$18 in 1959, due partly to bringing wage scales and benefits in line with private industry. The number of people employed per 100 patients went up from 156 just after World War II to 224 in 1959.

The accelerated increase in hospitalization insurance premiums in the last few years reflect these increases in hospital costs, and in addition the higher insurance costs due to a higher rate of utilization of hospital care by the insured group. (Note: The increases in premiums due to increased benefits are not reflected as price increases in the CPI). Various allegations have been made that there is abuse of hospital insurance by both doctors and patients, and specific flagrant instances of abuse are cited. 5/ Although the extent of overuse is not indicated by factual studies on a national basis, a number of local and State studies have been made. One study of medical records in Michigan found that when the patient paid the entire bill, understay (16.7 percent) was more common than overstay (6.3 percent), but that when the bill was paid by any other source, whether or not the patient participated, overstay (11.8 percent) was twice as common as understay (5.6 percent). 6/

The intense interest in drug prices was brought about by the higher price per prescription for the new drug preparations, not by the relatively modest price increases for these goods in the CPI. Whether or not these new drugs should be as expensive as they are is a question that has aroused considerable debate, charges and countercharges. Following Congressional Hearings, particularly in the early part of 1960, wide publicity was given to the pricing policies of drug manufacturers. In the latter part of 1960 and early 1961, reductions in manufacturers' prices of prefabricated prescriptions were put into effect and were gradually reflected at the retail level. Druggist reporting to the Bureau indicated that their lower prices for prescriptions were due to manufacturers' reductions as well as to increased competition, presumably from discount drug store operations, mail order sales, and similar distributive competitive influences.

For physicians, the responses to the economic influences of higher demand and limited supply are frequently advanced as reasons for the increases in fees. The high cost of education, particularly for specialized study, and the investment required for modern complex equipment have also helped to explain the upward drift in prices for physicians' services.

The outlook for medical care prices during the coming year seems to be a continuation of our experience during the last several years, with perhaps some moderation in the rate of increase. This cautious statement is based partly on reports and forecasts from various sources, but more on the expectation that the American people will continue to increase their use of medical goods and services as they have in the past years. With our higher incomes, we have raised our standards of what constitutes adequate medical care. Additional demand by a growing population would put more strain on our physicians and on the hospital facilities. Although the hospitals, insurance organizations and the profession

5/ An article on The Healthy "Sick" in the October 12, 1960, issue of the Wall Street Journal refers to some specific instances.

6/ A University of Michigan study of hospital and medical economics in Michigan, summarized in the Wall Street Journal, May 15, 1961.

generally are making efforts to cut costs through more efficient use of facilities, increases in costs are anticipated. In the drug field, there may be some additional price reductions in the coming year, but the average amount spent per prescription may be higher as more expensive new products are developed and prescribed.

Collective bargaining agreements. In talking about the outlook for medical care, I'm going to infringe slightly on Miss Kramer's territory and bring to your attention developments which affect the money outlay for medical care for a significant proportion of the population. These developments are the continued growth or liberalization of health plans in collective bargaining agreements.

About three-fourths of the industrial workers covered by union contracts (i.e., about 13 million out of 17 million workers) now have at least one type of health and insurance protection. Hence, extension to the remaining workers is likely to be at a much slower pace than in the past. Changes in the coming years are more likely to take the form of liberalization of benefits and financing.

Accident and sickness benefits to compensate for loss of income have generally been increased with the rise in wages. Many plans have replaced uniform benefits by benefits graduated according to earnings and those with graduated benefits have, in many cases, increased their maximum benefits. Also an increase in the duration of benefits from 13 weeks up to 26 weeks, which coincides with the 6-month waiting period for private and public disability pensions, has been incorporated in an increasing proportion of plans (58 percent of plans in 1955 compared to 65 percent in 1958). Both of these benefit increases are likely to be extended to additional plans in the next several years.

Cash indemnities for daily room and board under hospitalization plans and for surgical procedures have generally increased at about the same rate as these two items in the CPI. The major developments for these two plans in the past 5 years have been extensions to retired workers and their dependents. In the next several years, it is quite likely that additional plans will provide benefits for retired workers and dependents.

Medical benefit plans generally cover in-hospital expenses for physicians (other than surgeons) but not office and home visits. With the general trend toward major medical plans, it is possible that there will be a growth of major medical expense insurance in collective bargaining rather than liberalization of the medical benefit plans. The so-called catastrophic illness insurance (major medical plan) has been growing rapidly.

The financing of health plans is of particular interest. There has been a slowly moving trend toward employers paying all or a higher proportion of the cost of health benefits. The early 1960 steel contracts and this year's automobile contracts are examples of this trend.

The provision of a number of agreements on health plans and the changes from 1955 are covered in a series of bulletins 7/ issued by the Bureau of Labor Statistics, as a part of its regular program in the field of industrial relations.

7/ Available on request.

The Consumer Price Index

I would like to put a postscript to the summary of trends in prices of medical care and comment briefly on the CPI and on quality changes. As you know, there are many factors that influence the total amount of money that people spend for daily living. Some of these factors are changes in family size, in income, in location, and in kinds and qualities of goods and services purchased, as well as changes in prices. The CPI measures only the changes in prices, as they affect urban families of wage earners and clerical workers.

To measure changes in prices, a sample of about 300 goods and services was selected from among all goods and services purchased and the quality of each was described in what we call "specifications." In collecting prices, great care is exercised to obtain prices for the same or equivalent quality for two successive periods so that the comparison of prices from one period to the next will be a valid comparison. For this purpose our definition of quality (and the "specifications") relate to physical characteristics, e.g., is the prescription priced this month the same as last, or is the tooth filling the same? When quality changes occur, the value of the quality changes are estimated by various means, but such estimates are necessarily rough approximations in many cases. 8/ As you can easily visualize, the rising quality of medical care evidenced through reduced mortality rates, control of communicable diseases, more effective treatment of chronic illnesses and other advances, makes the measurement of price changes for medical care of the same quality a very difficult process. Despite the improvements in medical care, there have been some expressions of dissatisfaction which might be a partial offset to the higher cost for better care, if both factors could be accounted for in the price indexes. However, it is fairly clear that the price increases I have just summarized are an admixture of price increases and some unknown part of the higher cost for better quality care.

The actual reporting of fees and charges, primarily for professional services, also presents a measurement problem. As you know, some physicians scale their fees according to the individual patient's income or ability to pay and our field representatives have encountered some reluctance to report the "usual" fee. Comparison of our data with a few available spot studies made by other organizations indicate that the levels of fees for specific units of care, e.g., office visit, correspond quite closely. So we have felt that securing the "usual" fees has given us a reasonably accurate measure of the changes over time.

One development along this line may be of increasing importance in the level of fees in the next few years and in reducing some of the differences in prices among physicians for approximately equivalent procedures. In an effort to provide a guide for the consideration of physicians, "relative" fee schedules for different medical procedures have been prepared in a number of States 9/, as recommended by a committee of the American Medical Association. These schedules express the charges in relative units. For example, a routine office visit

8/ Methods of handling noncomparable price reports in the CPI are described in "The CPI and Problems of Quality Change," to be included in November 1961 issue of The Monthly Labor Review.

9/ For example, the Pennsylvania Medical Society's study placed relative values on about 2,000 medical and surgical procedures.

may be one unit and an office visit that involves taking a complete medical history and making a physical examination may be 5 units. So if a doctor sets his fee for a routine office visit at \$5, then the suggested fee for the more specialized visit would be in the neighborhood of \$25. These relative fees are not mandatory, but they are being used as guides to an increasing extent, particularly in California and several other States, according to news comment and reports from our field people.

The list of medical care items priced and the relative importance of each in the medical care group as of December 1960 are given in table 5. The weights used to combine price changes for the individual items of medical care represent the actual money outlay that families experienced in 1950. Some families had health insurance plans and others did not. Expenditures by both types of families were averaged using the proportions found in the 1950 family expenditure study. For health insurance, only the amount of the premiums paid by the families was included, not the amount paid for by employers under collective bargaining agreements. For other medical care items, the full expense was included for families without insurance. For families with insurance (regardless of how the insurance was financed), only that part of the total expenses actually paid by the families over and above that paid for by insurance, was included in the weights.

At the present time, a comprehensive revision of the Consumer Price Index is under way. The 5-year program, which will lead to a revised series beginning January 1964, includes new studies of family expenditures, extensive price change studies, exploration of methods of dealing with quality changes, a new sample of cities, a new sample of goods and services, and review or revision of other phases of the index. For the medical care segment, the revision was begun early--in 1958--with a complete revision and 2- to 3-fold expansion of the samples of physicians, dentists, and hospitals from which prices are obtained. This phase is practically completed for all large cities in the current index. However, the most acute measurement problem for medical care prices relates to quality change. Various methods of measuring changes in medical care prices will be explored during the revision period, to determine whether some alternate method of pricing and of valuing quality changes would be more satisfactory than our current methods.

Expenditures for medical care

The importance that families place on obtaining medical care is very evident when we look at the record of medical care expenditures. The proportion of total expenditures that is devoted to medical care has increased significantly. Evidence on this point can be found not only in the periodic surveys of family expenditures conducted by BLS and the Department of Agriculture but also in the series of personal consumption expenditures in the national accounts prepared by the Department of Commerce.

One study made by BLS ^{10/} at the beginning of the century showed that city workers' families spent an average of 2.7 percent of their total expenditures for "sickness and death" (i.e., medical care and funeral expenses). By the middle of the century--in 1950--city workers' families had almost doubled the share they devoted to medical care--5 percent of total expenditures (not including funeral expenses).

^{10/} See How American Buying Habits Change, U.S. Dept. of Labor, Wash., D.C., pages 163 and 164.

In the personal consumption expenditures for the nation as a whole, compiled by the Department of Commerce, the share for medical care has risen markedly. In 1929, medical care accounted for 3.7 percent of expenditures for all consumer goods and services, by 1950 the share was 4½ percent, an increase of 22 percent. Successive increases in following years raised medical care spending to 6.0 percent of the total, or a 33 percent gain in the past 10 years. (See table 6).

The distribution of the medical care dollar among the various medical goods and services has also been undergoing a transformation. The BLS family studies 10/ indicate that during and before World War I, expenses for physicians took half or more of all medical expenses, and hospitals less than 10 percent. By the mid-thirties, direct expenditures for physicians were down to 39 percent, hospitals were up to 10 percent, and prepaid medical care (mostly hospitalization insurance) was 7 percent of expenditures. By 1950, expenses for physicians were a smaller proportion (34 percent), direct payments for hospital expenses were only 5 percent, but the proportion for prepaid medical care had more than doubled. It was 19 percent in 1950. The percent for medicines, drugs, and appliances remained the same--17 percent--from World War I to 1950.

Although the Commerce series on personal consumption expenditures are not directly comparable to the family data, the distribution of the national medical care dollar for the past 10 years shows the same tendencies (see table 7). The share for physicians has declined slowly from 28 percent in 1950 to 25 percent in 1960. Expenditures for hospitals (including the payments under hospitalization) increased from 23 percent of the total dollar in 1950 to 26 percent in 1960.

The steadily increasing proportion of personal consumption expenditures devoted to medical care can be attributed to a number of development over the years. The relatively faster rate of price increase for medical care as a group than the rate for other groups of goods and services is, of course, one element. The influence of "higher quality" or more complex procedures at higher cost is also present as the improvements and advances in medical science alter the incidence of various illnesses. There is also the greater volume of medical care used--more care for individuals and for a larger proportion of the population, as incomes and standards of adequacy have risen. The increase in "use" was estimated at about 100 percent from 1929 to 1958, 27 percent during the 10 years 1948 to 1958 and from 17 to 20 percent for the 5 years 1953-58. 11/

Some of the increase in the use of medical care must be attributed to the changing age distribution of the population. With the remarkable increase in longevity (average length of life has increased by more than 20 years in this century), more people live to be 65 years old or more. The need for medical care by older people is usually more prevalent and more persistent than earlier in life. Most of the current studies of medical care expenditures and use recognize the wide variation in medical care needs among age groups and among families. One study of family medical care expenses for a 12-month period in 1957-58 12/, for example, showed a progressively greater expenditure per person along the age scale--from \$48 for persons under 6 years up to \$177 per person for people 65 and over.

10/ See preceding page.

11/ For basis of estimates see Doctors, Patients, and Health Insurance, by Herman M. and Anne R. Somers (Brookings Institution, Wash., D. C. 1961) page 168 and 170.

12/ Family Expenditure Patterns for Personal Health Services, 1953 and 1958: Nationwide Surveys, Odin W. Anderson, Patricia Collette, and Jacob J. Feldman (Health Information Foundation, Research Series No. 14, 1960), p. 11.

This brief resume of the increased importance of medical care in our expenditures brings us back to the quotation at the beginning of this discussion. We can look forward to continued efforts to reduce illness and disability, particularly the chronic and mental disorders. The cost of such progress and more medical care for more people can be expected to take an increasing share of the national income and of the average family budget during the next year.

Table 1 - Changes in Consumer Price Index, by Major Group and by Special Group, 1939 to 1960

Group	Percent change from -				
	1939	1946	1952	1955	1939
	to	to	to	to	to
	1946	1952	1955	1960	1960
ALL ITEMS	40.4	36.1	0.9	10.5	113.0
A. Changes by major group					
Food	67.7	45.1	- 3.2	7.9	154.1
Housing	16.0	29.9	4.7	9.6	72.8
Apparel	59.4	26.4	- 2.0	5.5	108.4
Transportation	17.0	53.7	.2	15.7	108.3
Medical care	20.8	33.6	9.2	22.0	115.2
Personal care	46.6	27.9	3.1	15.6	123.7
Reading and recreation	42.4	19.3	- .4	14.0	92.9
Other goods and services	25.5	30.2	4.2	10.0	87.3
B. Changes by special group					
Commodities	55.2	39.5	- 2.4	7.8	127.7
Nondurables	55.3	40.0	- 1.1	8.2	132.7
Durables	52.7	30.1	- 7.6	6.2	94.8
New cars	n.a.	n.a.	- 4.2	14.8	141.6
Appliances <u>1/</u>	34.3	21.3	-10.5	- 6.7	36.0
Services	12.9	31.4	8.8	15.6	86.6
Rent	5.5	29.0	10.5	8.8	63.7
Household operation services <u>1/</u>	25.4	30.3	6.5	15.4	100.9
Transportation services	8.1	59.8	11.2	- 5.0	82.5
Medical care services	23.7	37.0	9.9	24.0	130.9
Other services	57.1	21.5	6.4	14.5	132.6

1/ "Appliances" includes radios and TV sets in addition to household appliances. "Household operation services" includes gas and electricity, laundry services, drycleaning, domestic service, telephone, postage, and water.

SOURCE: U.S. DEPARTMENT OF LABOR, Bureau of Labor Statistics

Table 2 - Importance of Major Groups in the Movement of the Consumer Price Index
September 1955 to September 1961

Group	Relative importance in the CPI December 1960 (Percent)	Price change		Contribution to change in all items	
		Sept. 1955 to Sept. 1960 (Percent)	Sept. 1960 to Sept. 1961 (Percent)	Sept. 1955 to Sept. 1960 (Percent)	Sept. 1960 to Sept. 1961 (Percent)
All items	100.0	+10.4	+1.2	10.4	1.2
Food	28.5	+ 7.7	+1.0	2.2	.3
Apparel	8.8	+ 5.7	+ .5	.5	(.1/)
Housing	32.7	+ 9.6	+ .5	3.2	.2
Transportation	11.5	+15.5	+3.2	1.7	.4
Medical care	5.7	+22.4	+3.1	1.2	.2
Personal care	2.3	+14.8	+ .3	.3	(.1/)
Reading and recreation	5.4	+14.4	+2.4	.8	.1
Other goods and services	5.1	+10.0	+ .8	.5	(.1/)

1/ Less than 0.1 percentage point.

SOURCE: U.S. DEPARTMENT OF LABOR, Bureau of Labor Statistics

Table 3 - Changes in Consumer Price Indexes for Medical Care,
1939 to 1960

Item	Percent change -				
	1939 to 1946	1946 to 1952	1952 to 1955	1955 to 1960	1939 to 1960
Medical care	20.8	33.6	9.2	22.0	115.2
Medical care less hospital room rates and insurance	18.4	24.0	6.1	14.5	78.3
Prescriptions and drugs	7.2	20.6	3.1	10.4	47.1
Medical care services	23.7	37.0	9.9	24.0	130.9
General practitioners' fees	22.1	24.0	10.0	19.0	98.1
Surgeons' fees	21.5	22.7	4.4	11.0	72.7
Dentists' fees	25.4	28.9	7.7	12.5	95.9
Optometric examination and eyeglasses	12.9	19.5	.9	10.5	47.7
Hospital room rates	46.3	90.3	17.8	35.8	345.7
Hospitalization insurance	-	-	19.1	51.0	79.8

SOURCE: U.S. DEPARTMENT OF LABOR, Bureau of Labor Statistics

Table 4 - Consumer Price Indexes for Medical Care,
September 1955 to September 1961

Item	Percent change -		
	Sept. 1955 to Sept. 1960	Sept. 1960 to Sept. 1961	Sept. 1955 to Sept. 1961
Medical care	+22.4	+ 3.1	+26.1
Medical care less hospital room rates and insurance	+14.3	+ 1.6	+16.7
Prescriptions and drugs	+10.3	- 1.5	+ 8.7
Medical care services	+24.3	+ 3.8	+29.0
General practitioners' fees	+18.9	+ 2.6	+21.9
Surgeons' fees	+10.3	+ 2.1	+13.1
Dentists' fees	+13.4	+ .1	+13.5
Optometric examination and eyeglasses	+10.0	+ 3.7	+14.1
Hospital room rates	+35.7	+ 8.4	+47.1
Hospitalization insurance	+51.7	+ 8.4	+64.4
Surgical insurance	-	+ 4.7	-

SOURCE: U.S. DEPARTMENT OF LABOR, Bureau of Labor Statistics

Table 5 - Relative Importance of Individual Items
in the Medical Care Group as of December 1960

Item	Percent of total group, <u>1</u> / December 1960	Item	Percent of total group, <u>1</u> / December 1960
Medical care services	86.2	Prescriptions and drugs	13.8
General practitioner	30.9	Prescriptions <u>2</u> /	6.3
Office visit	13.3	Anti-infectives	2.5
Home visit	14.2	Sedatives and hypnotics	1.1
Obstetrical care	3.4	Ataractics	.5
Surgeon	4.5	Antispasmodics	.6
Appendectomy	2.9	Antiarthritics	.5
Tonsillectomy	1.6	Cough preparations	.4
Dentist	15.3	Cardiovasculars and antihypertensives	.7
Filling	12.3	Aspirin tablets	3.2
Extraction	3.0	Milk of magnesia	1.3
Optometric examination and eyeglasses	4.9	Multiple vitamin concentrates	3.0
Hospital services	4.9	All medical care	<u>100.0</u>
Men's pay ward	1.6		
Semi-private room	1.8		
Private room	1.5		
Hospitalization insurance	17.8		
Surgical insurance	7.9		

1/ The dollar figures on which these percentages are based were obtained by multiplying the 1950 expenditures by the amount of price change up through December 1960.

2/ The prescription categories listed were introduced into the index in March 1960. Earlier three prescriptions had been included--pencillin tablets, narcotic and non-narcotic preparations. When the new prescriptions were introduced, they were "linked" into the index, thus making the assumption that the difference between the weighted average of the prices of the new and the weighted average for the old prescriptions on the date of introduction is a rough measure of the quality difference and is not to be reflected as a price change. The old prescriptions averaged about \$1.65 and the new about \$4.15. The difference (\$2.50) was not included as a price change in the index.

SOURCE: U.S. DEPARTMENT OF LABOR, Bureau of Labor Statistics

Table 6 - Personal Consumption Expenditures by Type of Product,
1929 to 1960

Year	Percent of total expenditures						
	Food	Housing and household operation	Clothing, accessories, and jewelry	Transportation	Recreation	Medical care	All other ^{1/}
1929	24.7	28.1	14.2	9.6	5.5	3.7	14.2
1934	27.3	28.5	12.6	8.9	4.7	4.2	13.8
1939	28.4	27.6	12.4	9.4	5.1	4.2	12.9
1944	34.1	23.7	15.9	5.3	4.9	4.3	11.8
1949	29.9	24.8	13.0	11.5	5.6	4.4	10.8
1950	28.4	25.7	12.2	12.6	5.8	4.5	10.8
1951	29.4	25.6	12.2	11.7	5.6	4.5	11.0
1952	29.3	25.6	12.0	11.5	5.6	4.6	11.4
1953	28.0	25.7	11.5	12.7	5.5	4.8	11.8
1954	27.8	26.0	11.2	12.3	5.6	5.0	12.1
1955	26.4	26.2	11.1	13.8	5.5	5.0	12.0
1956	26.4	26.5	11.0	12.6	5.6	5.3	12.6
1957	26.1	26.4	10.8	12.8	5.6	5.4	12.9
1958	26.1	26.9	10.6	11.5	5.7	5.7	13.5
1959	24.8	26.8	10.5	12.4	5.9	5.8	13.8
1960	24.3	26.8	10.3	12.4	5.9	6.0	14.3

^{1/} Includes tobacco products, personal care, funeral and burial expenses, personal business, private education and research, religious and welfare activities, foreign travel and remittances (net).

SOURCE: 1929-1944 - National Income, Supplement to the Survey of Current Business, 1954 edition. U.S. Department of Commerce, Washington, D.C., 1954, pages 206-209.

1949-1955 - U.S. Income and Output, Supplement to the Survey of Current Business, U.S. Department of Commerce, Washington, D. C., November 1958, pages 150-151.

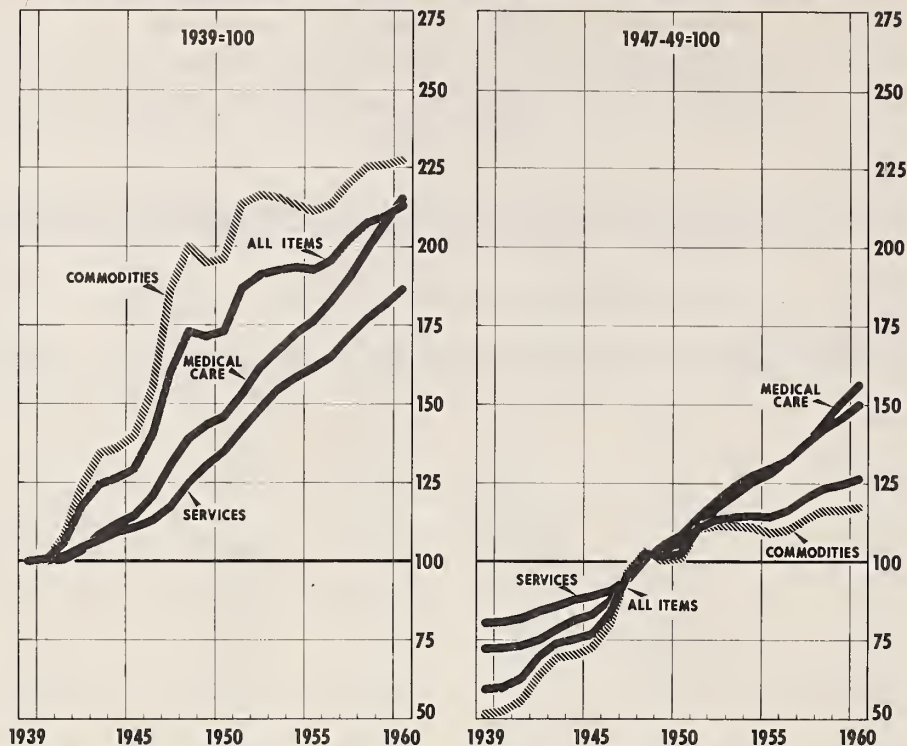
1956-1960 - Survey of Current Business, U. S. Department of Commerce, Washington, D. C., vol. 41, No. 7, July 1961, page 14.

Table 7 - Personal Consumption Expenditures for Medical Care,
1950 to 1960

Year	Percent of total medical care expenditures for						Ophthalmic products, orthopedic appliances
	Drug preparations and sundries	Professional services			Hospitals	Insurance	
		Physicians	Dentists	Other			
1950	19.7	27.8	11.0	5.5	23.3	7.2	5.5
1951	21.0	26.7	10.6	5.4	23.8	6.8	5.7
1952	20.2	26.2	10.8	5.3	24.4	7.4	5.7
1953	19.3	25.7	11.1	5.3	24.6	8.5	5.5
1954	18.1	26.1	11.8	5.3	24.8	8.9	5.0
1955	19.3	24.9	11.8	5.1	25.1	8.5	5.3
1956	20.3	24.9	11.5	5.0	24.9	7.6	5.8
1957	19.9	24.6	11.3	4.8	25.2	7.8	6.4
1958	19.9	25.3	11.1	4.7	25.7	7.3	6.0
1959	19.8	25.3	10.4	4.6	25.8	7.6	6.5
1960	19.9	25.1	10.1	4.5	26.3	7.8	6.2

SOURCE: 1950-1955 - U. S. Income and Output, Supplement to the Survey
of Current Business, U.S. Department of Commerce,
Washington, D.C., November 1958, pages 150-151.
1956-1960 - Survey of Current Business, U.S. Department of
Commerce, Washington, D.C., Vol. 41, No. 7,
July 1961, page 14.

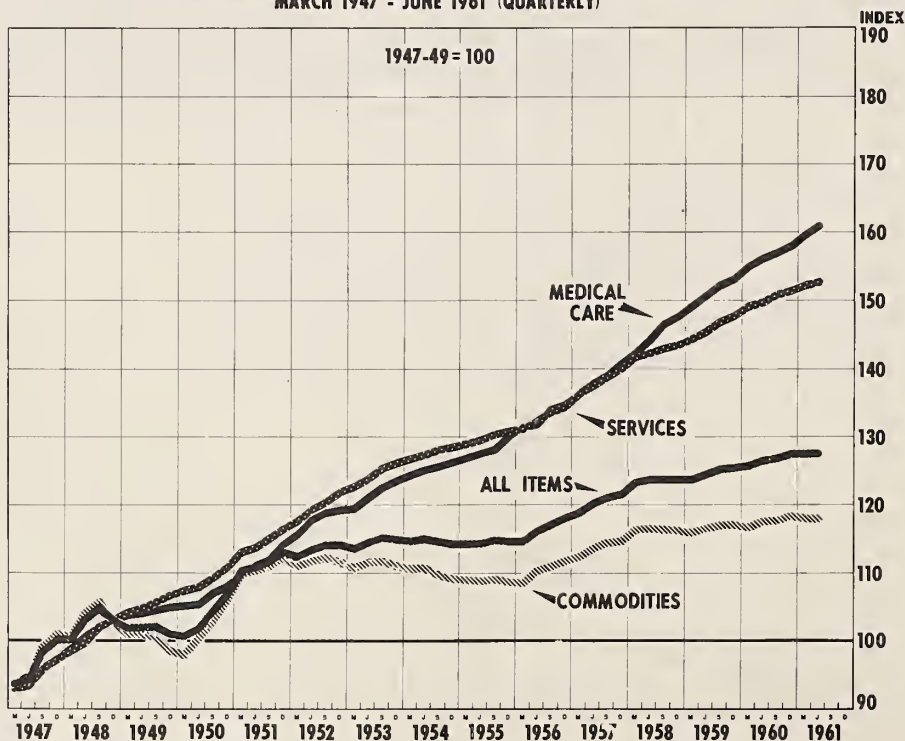
ANNUAL CONSUMER PRICE INDEXES FOR SELECTED GROUPS, 1939-60



UNITED STATES DEPARTMENT OF LABOR • BUREAU OF LABOR STATISTICS

CONSUMER PRICE INDEXES FOR SELECTED GROUPS

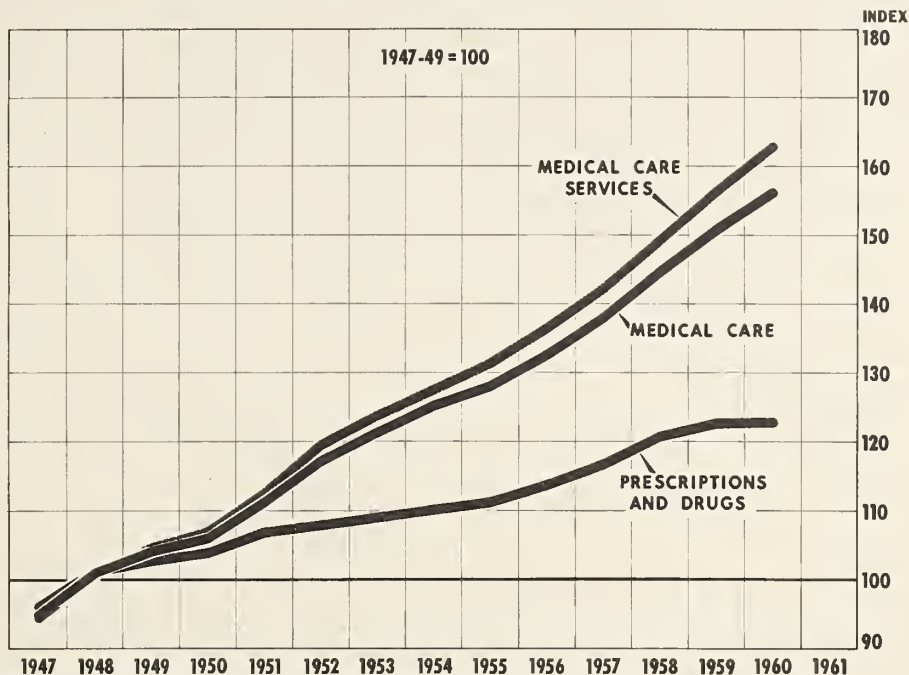
MARCH 1947 - JUNE 1961 (QUARTERLY)



UNITED STATES DEPARTMENT OF LABOR • BUREAU OF LABOR STATISTICS

ANNUAL INDEXES OF SELECTED MEDICAL CARE GROUPS AND SUB-GROUPS IN THE CONSUMER PRICE INDEX

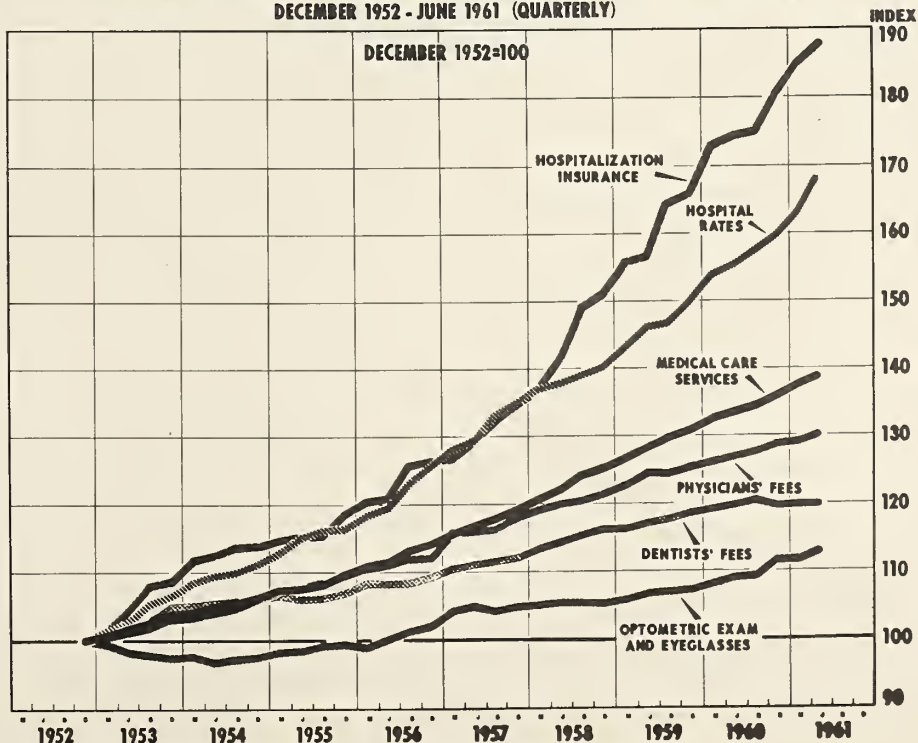
1947 - 1960



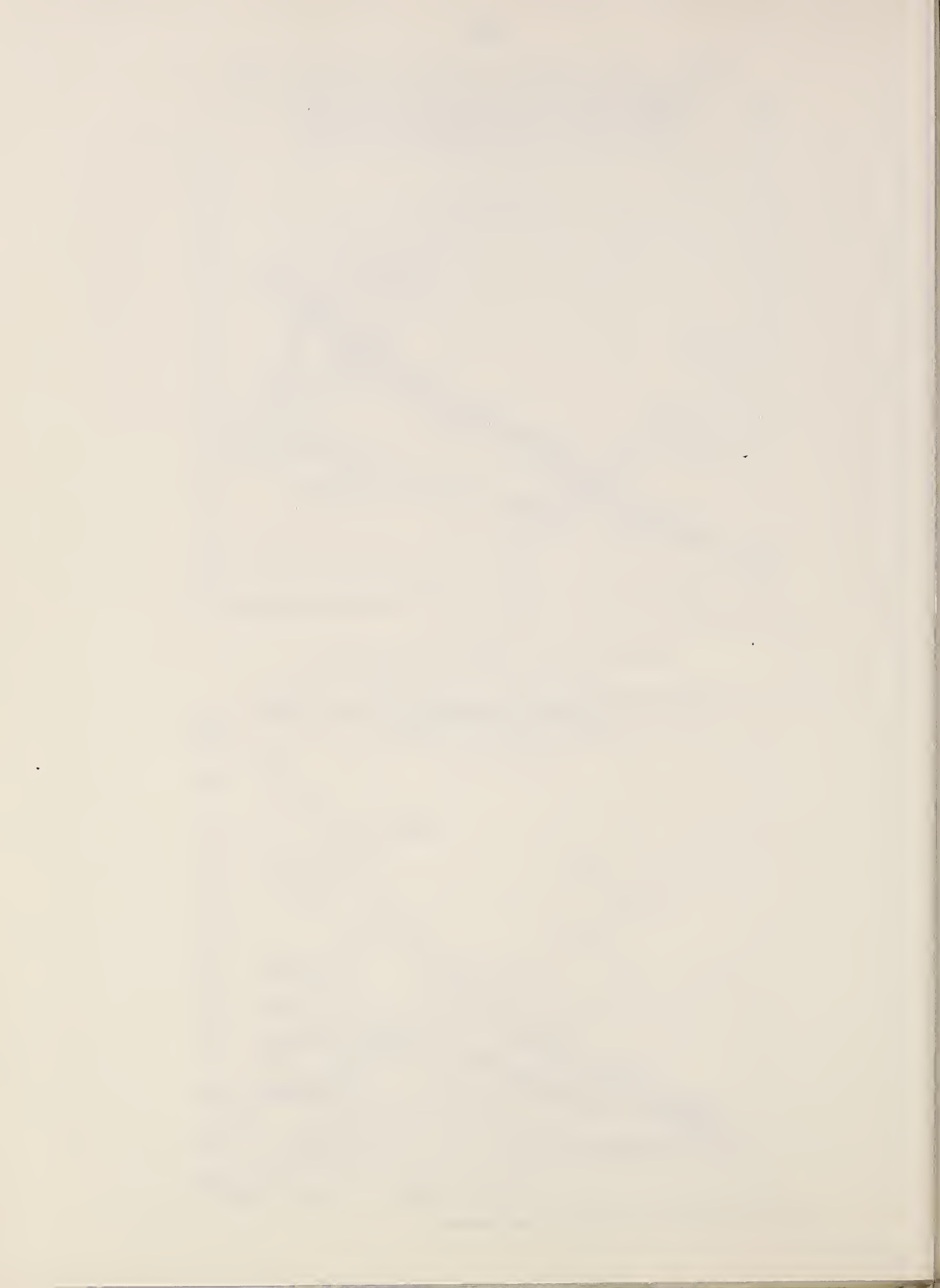
UNITED STATES DEPARTMENT OF LABOR - BUREAU OF LABOR STATISTICS

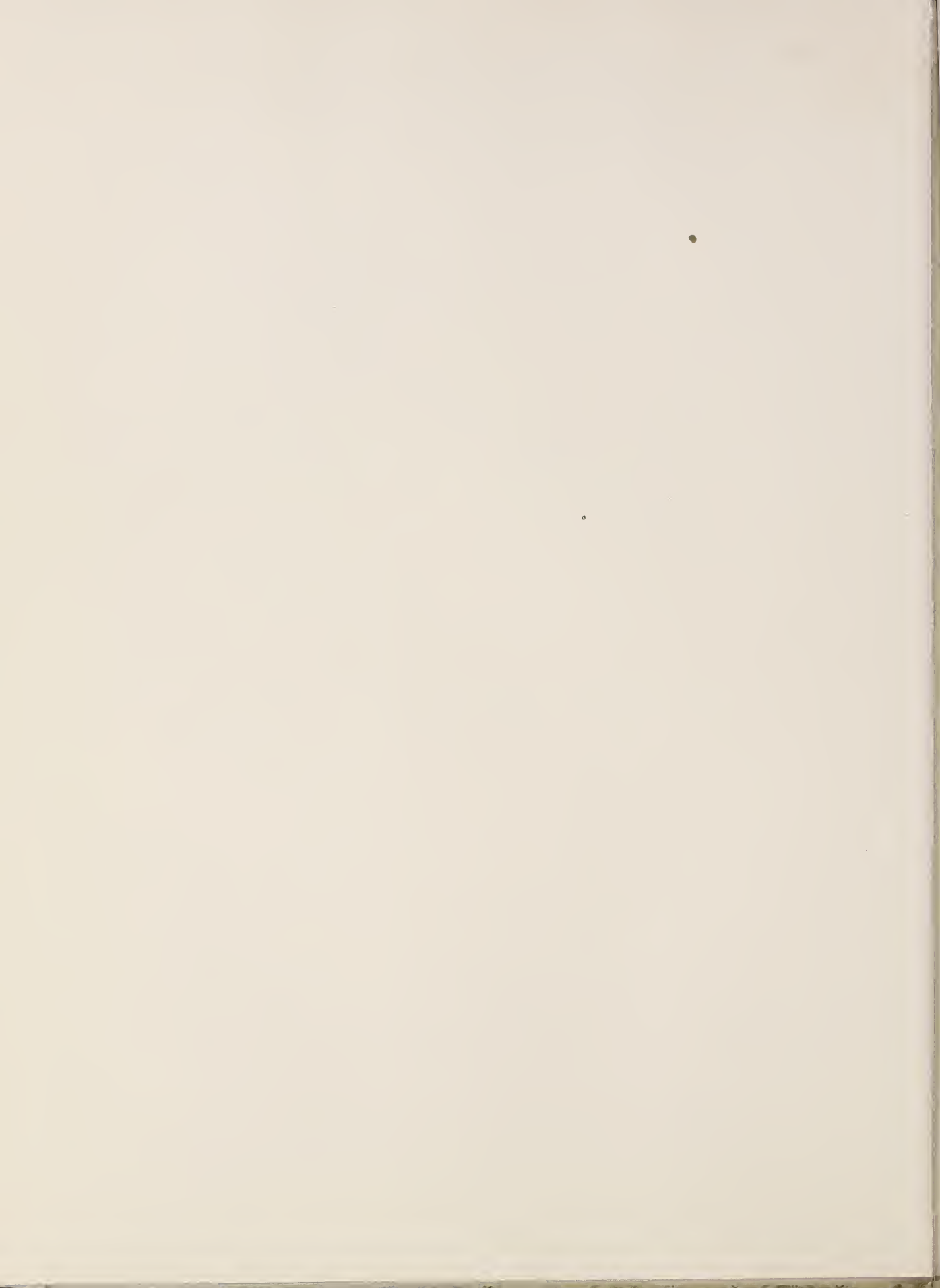
CONSUMER PRICE INDEXES FOR SELECTED MEDICAL CARE ITEMS

DECEMBER 1952 - JUNE 1961 (QUARTERLY)



UNITED STATES DEPARTMENT OF LABOR - BUREAU OF LABOR STATISTICS





OUTLOOK FOR RURAL COMMUNITY FACILITIES

Talk by Henry S. Brooks
Public Facilities Officer
Community Facilities Administration
Housing and Home Finance Agency
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 2:30 p.m., Wednesday, November 15, 1961

It is good to be with you today and have this opportunity to discuss with you the programs of the Community Facilities Administration, a constituent of the Housing and Home Finance Agency. The Community Facilities Administration is responsible for four programs, all of which I think are of interest to you.

Like the old fashioned seller of patent medicines, we have something we think is good for everybody but unlike his, our medicine is likely to work. As I cover these four programs of CFA, I will tell you how they are now being utilized in rural areas and how they can continue to assist in providing facilities of great interest to residents of rural areas.

It is quite clear nowadays that there aren't very many real differences left between urban and rural life. At one time, of course, there was an enormous gulf between the two. These were two entirely different ways of life, which produced what almost might be considered two different kinds of people. If these differences were more superficial than real, they were nevertheless accepted as truly existent, and were the basis for considerable difference of opinion and for a widespread feeling that they created unbridgable antagonisms.

Nowadays there may still be some remnants of the old antagonisms, but it is no exaggeration to say that more and more farmers are living in homes exactly like their city cousins, just as the city cousins are increasingly trying to find places to live that are as far out in the countryside as they can possibly get and still make their daily trips to and from their jobs.

You can't tell by looking at a person or by listening to him whether he makes a living on the land or in the town. His speech, his clothing, his entertainment, his aspirations, his eating habits, his education, his hobbies, his interest in the world around him, his character, his view of life, are all pretty much the same, no matter whether he is an urban or a rural dweller.

Even his problems have come to be pretty much the same, regardless of whether he lives in the city or in the country. We have always been interdependent but this has been driven home with greater emphasis as we meet each other more frequently and find ourselves grappling with what are essentially the same problems.

The experts tell us that we have been experiencing an explosion of our city populations out into the countryside. The central cities have been losing some population, but the suburbs have been expanding at a great rate. They have grown so fast that a great many problems have been created, not only for the new residents, but for old residents, the rural people, as well.

Many of the cities' problems have been created by our great improvements in productivity. We have depressed and blighted areas that are the results of changes in production methods, or in public taste. Industry is always on the move, to find better locations for new productive facilities, and every state and locality is forced to worry about these migrations. If the migration is outward, it may leave behind a stubborn pocket of unemployment. If it is inward, then the community must be concerned about the adequacy of its community facilities to handle the new activities.

City people have generally not been aware of the fact that their productivity increases are not nearly as great as those in agriculture. But these improvements in agricultural techniques have the same sort of consequences, good and bad, as we find in industry. A steadily decreasing proportion of the population remains on the land and is needed to feed our growing population. Half our farmers, I am told, produce 90 percent of our food and fiber, and this adds to the problems of the rural areas a dimension that is not noticeably different from what we find in the coal fields or other industrially depressed areas.

If we have become one kind of people, with similar problems and needs, then we can find a great deal of common ground in our efforts to resolve our problems and meet our needs. This is, in fact, demonstrated by the federal legislation under which community facilities and area redevelopment assistance are provided.

A technologically advanced people, such as we Americans certainly have become, cannot be satisfied with individual wells in crowded suburban areas when we want pure drinking water. Nor can we operate modern factories without an adequate water supply. Similarly, we are no longer satisfied with the old-fashioned toilet and sewage disposal facilities that may have suited a past generation, either for our homes or for our businesses.

We can't be satisfied with these facilities for many reasons, some of them related to health, others to convenience, others to economic well being. All of us want all of the facilities that are prerequisites to the good life.

The wide interest in the problems of community development is not merely commendable. It is essential if we are to meet the challenge of the days ahead, the challenge set forth by President Kennedy in his 1961 Housing Message to Congress, to "begin now to lay the foundations for livable, efficient, and attractive communities of the future."

The problems we face cannot be solved if only a part of the community is interested in meeting them. It will take a combination of all the varied groups and interests, with the assistance of state and federal governments where this is appropriate, to provide environments which meet our needs and of which we can be proud.

The livable, efficient and attractive future communities, rural and urban, won't just grow like Topsy. Our communities are being molded this very minute by social forces operating at unprecedented speed, so that within the lifetime of a single individual the changes in our communities are actually revolutionary.

What has happened has been commented upon often enough. As families prosper, or as they find our cities less and less satisfactory as a place to live and raise families, they move out of the central city, if they can into the suburban areas, seeking among other things, good housing.

But good housing consists of more than a well-built and well-financed home. We must also have the right answers to these two questions: First, is the home located in an area that has the public facilities needed for health, safety and growth; and second, does the housing meet the needs of the user?

Community Facilities Administration has important responsibilities in answering these two questions.

People who have always lived in the city take a great many amenities for granted. The streets have been there for a long time. There is a water and sewer system. Gas, electricity and telephones are immediately available. The hospitals and schools have been built. There are firemen and policemen and all the paraphernalia of local government. To be sure, the residents must pay for these facilities, but a large part of the investment was made long ago and was paid for by an earlier generation.

If you have lived in the country, or have just moved there to get away from the crowded city, things are quite different. Fewer services were needed as long as the population density was low. But in recent years, city people have been flooding the countryside, changing our once open spaces into continuous belts of suburbs.

When people fled the suburbs, they hoped to escape the tax burdens and congestion of the old central city, but they were doomed to disappointment. The new suburbs suddenly needed a lot of public facilities like those long in existence in the cities. But the cities had built theirs over a long period of time, and had built them when prices were lower. The new suburbs had to build theirs in a great hurry and at current prices.

As population grows and spreads, and as industry moves further out, we place greater demand on our water supplies. We need more water than ever before, but all too often we pollute our sources of supply by discharging industrial waste and untreated sewage into our streams. We rely on septic tanks and cesspools only to find that in crowded areas they contaminate individual wells.

Local governments and other public bodies have to find the money to pay for these facilities and services. Usually they do this by selling bonds, which they repay over a period of years from general tax income or from the revenue produced by the new facility.

The Community Facilities Administration has two programs that help finance the public facilities they need.

One is Advances for Public Works Planning. These advances are interest free and are repaid when construction begins. They make it possible for a local government to draw up the plans for a needed public facility.

The advances for planning break into what would otherwise often be a vicious circle. Frequently a community would be able to borrow the money for a needed public work if it had the plans, but it cannot get the planning money until it has the plans to show prospective investors or to the voters who must approve the bond issue.

The planning advance gets the project under way. Since 1946, Community Facilities Administration has made more than 9,400 planning advances totaling over \$100 million. These have resulted in the construction of public works that cost two and three quarter billion dollars, borrowed almost entirely from private investors.

Of these advances about half were made to small communities of less than 5,000 population. As example, let me cite a few. Recently, we made an advance in the amount of \$940 to the City of Ingalls, Kansas, population 186, for the preliminary planning of a sewerage system and treatment plant. We think we made Paradise, Kansas, a little more nearly like a place with the same name by advancing \$575 for the preliminary planning of a water system. This Paradise has a population of 155. The list of projects is long and in it we find county fair exhibition buildings, horse barns and swine barns. The program is rural as well as urban.

It is a fair assumption that few of these needed facilities would have been built without the advances, or would have been built so promptly, since they are made only when planning money is available nowhere else.

Our second form of aid is the Public Facility Loans program.

Generally, a community is able to borrow money for its needed public works from private investors. However, smaller communities far away from the financial centers sometimes have trouble borrowing at a reasonable rate of interest. In such case, they may be able to borrow from Community Facilities Administration through its Public Facility Loans program.

About 90 percent of applications received for Public Facility loans have come from communities with populations of less than 5,000. Over 90 percent of the applicants were seeking assistance in the construction of water and sewer facilities. The typical applicant has been a town of about 1,000 population which needed about \$200,000 to finance a project and which had never before issued bonds or planned, built and operated a public facility. For example, the Village of Chatham, Louisiana, population 1050, was granted a loan of \$154,000 to build a sanitary sewerage system and Swifton, Arkansas, borrowed \$113,000 to build a water system. Swifton has a population of 565.

Since 1954, CFA has approved about \$100 million worth of Public Facility loans.

Public Facility loans are available to communities under 50,000 in population except in depressed areas where communities under 150,000 are eligible. During this fiscal year, public facility loan interest rates are 3 5/8 percent, but drop to 3 3/8 percent in depressed areas.

The loans are made, after they have been approved, only if private financing is not available on reasonable terms. We require that bonds be advertised for sale, before we will buy them.

Our agency is also cooperating whole-heartedly in the efforts of the Area Redevelopment Administration to provide facilities to give permanent economic improvement to designated redevelopment areas. As you know, many of the areas presently designated for assistance are rural and we are led to believe more depressed farm areas will soon be designated for such assistance.

We talked earlier about housing to meet special requirements. Our agency handles two such special needs. One is for college housing, the other is housing for senior citizens.

The College Housing program was established by Congress in 1950 to help meet the tremendous influx of students into colleges and universities. It lends money to accredited institutions with which they build dormitories, dining halls, college unions, married student apartments, and faculty housing. The loans are available also to hospitals that conduct accredited nurses' training schools. Many college housing loans have been made to agricultural colleges and the nation's Land Grant colleges. Many more have been made to colleges in small towns and rural areas.

Since it started, the College Housing program has approved loans of more than a billion and a half dollars to more than 800 institutions.

There was a time when a college president would have had to list student housing, dining halls and college union facilities among his greatest needs. This is no longer so because of partnership that has been developed between the federal government and the colleges, universities and teaching hospitals. Through the College Housing Loan program of the Community Facilities Administration, we have been able to relegate these needs to the list of problems that can be - and are being - solved.

We have the satisfaction that is not available to everybody of seeing in beautiful buildings and pleasant accommodations the fruits of our work. We have the satisfaction of knowing that we contribute to the future of our nation and of the people who make it up, in building for our fellow citizens the kind of living environment we believe is the birthright of every American.

America today is getting set to handle the second generation of new college students since World War II. The first generation arrived as soon as the war was over. College administrators did a magnificent job of accommodating them in war surplus barracks and quonsets, which they obtained from the federal government. By 1950 it was evident that the wave would not recede. We needed permanent housing for a permanently expanded student population. That year Congress established the College Housing Loan Program. In 1951 our first loan was made.

The great rush for education at the college level is largely a product of World War II. We expressed our gratitude as a nation by approving the GI Bill of Rights, which gave every veteran a chance to attend college, provided he could make the grade academically. Our veterans seized the opportunity with enormous enthusiasm. They changed the character of most of our colleges and universities, introducing such innovations as the married undergraduate and the P.H.T. (putting hubby through) degree for working wives, which were almost unheard-of in my undergraduate days. We were fortunate

that this rush for higher education coincided with major changes in our technology and in the composition of the work force that required more and more highly skilled professionals.

Now the children of those first GI Bill students are getting set for college. In the next five years, the number of college students will increase by about a million. By 1970 the number of applicants is expected to double. Will we be able to accommodate this vastly increased number of young people? The answer lies not only in our ability to house and feed them, but equally with the availability of teachers, instructional materials, equipment and classroom and laboratory buildings. These will have to be provided, (I wish we were more certain that they will be,) by a combination of private and public, local, state and federal contributions if we are to meet our needs.

But we can say with considerable assurance that the non-instructional facilities have been assured by the Housing Act of 1961, the most significant housing legislation in many long years. Congress voted, in the new housing act, to lend up to 300 million dollars through the College Housing program during each of the next four years, making an additional total of one billion two hundred million dollars. This will allow the colleges and universities to plan their new residential building in an orderly way.

Thus, one part of our educational expansion has been made possible. It is provided, if we face the realities, by the students themselves and by their families, through their payments for board and room. We voters and taxpayers must face a reality of our own: we must match this contribution by the students and their families with a substantial expansion of instructional facilities, increased and better-paid staffs, and more instructional materials. In College Housing it is not too difficult to work out an annual balance sheet by which each project can be paid off in 40 years. This sort of balance sheet may not be so easy to develop on the instructional side, yet we know that our future as a nation depends on our matching with our resources the zeal and sacrifice which are the contributions of so many of our students and their parents.

Our College Housing program is a recognition of the nation's responsibility to assist in the growth of our colleges and universities. The President has recommended and in its next session Congress will consider, favorably I hope, legislation designed to assist institutions of higher learning in meeting their academic facilities needs.

President Kennedy has expressed, with his customary eloquence, how much is at stake. In a speech at George Washington University, he said:

"I don't think that there has ever been a time when we have had greater need for those qualities which a university produces. I know that many people feel that a democracy is a divided system, that where the Communists are certain in purpose and certain in execution, we debate and talk and are unable to meet their consistency and their perseverance.

"I do not hold that view. There are many disadvantages which a free society bears with it in a cold war struggle, but I believe over the long run that people do want to be free, that they desire to develop their own per-

sonalities and their own potentials, that democracy permits them to do so, and that it is the job of schools and colleges to provide the men and women who will, with their sense of discipline and purpose and understanding, contribute to the maintenance of free societies here and around the world.

"The duty of the educated man or woman, the duty of the scholar, is to give his objective sense, his sense of liberty to the maintenance of our society at a critical time."

Our program of direct loans for senior citizens housing is, like the College Housing program, directed at an important special housing need. Elderly persons have become increasingly independent, due to the wide coverage of pension systems and social security. When the United States was predominantly a rural nation, the large three-generation family was by far the best way to meet the needs of the aging. This is still true in many countries where large family units work the land with relatively little mechanical assistance.

But the industrial society has made major changes in our responsibilities toward each other. Many of the functions that once were performed by the family must now be undertaken by a larger unit, the community, which may be local, regional, state-wide, national or even international. Congress has asserted that the elderly who are inadequately housed are a joint responsibility of local community groups and of the federal government.

What are the facts about our elderly population? President Kennedy summarized them in his Housing Message to Congress, delivered on March 9, 1961, when he said:

"Sixteen million of our people are 65 years or older. By 1970 this figure will increase to more than 20 million. Most of these elderly people have very limited financial means. More than half of the families headed by a person over 65 have annual incomes below \$3000 and four-fifths of all people of this age living alone must subsist on less than \$2000 a year.

"The housing problem of the elderly is attributable only in part to low incomes--many have physical infirmities limiting their activities; many need access to special community services. Special equipment and apartment designs can make their homelife safer and more comfortable.

"This country cannot neglect the growing housing needs of the elderly..."

From these facts several conclusions can be drawn. It is necessary for older persons to develop new interests to replace those they had when they were in the active labor market. The physical infirmities that limit the activities of many older persons make it necessary that special services be available to them.

The patterns of housing that meet the problems of growing families will not necessarily care for the elderly. The housing of our senior citizens requires special attention, and to our credit as a nation, we have started.

To enable elderly persons to live as independently as possible, and yet to meet their special needs, housing projects of many kinds have been

developed. Community Facilities Administration administers a direct loan program that assists non-profit organizations, both public and private, in building rental or cooperative housing for the elderly.

These projects are limited to persons of 62 or over. Their design takes into account the special needs of the elderly. We have received applications for several different kinds of projects, each designed to meet the objectives of a particular group. These include apartment buildings and various forms of congregate living in which the residents may eat together in a common dining hall but also have as much privacy as possible in their living quarters.

If you have followed me through this long exposition of the programs of the Community Facilities Administration, you have demonstrated the staying power of those thoroughly dedicated to a cause. If I may impose on you a bit more, I ask that you take this message to your home communities.

Tell them that Community Facilities Administration is working hard as a part of the Housing and Home Finance Agency team, under the leadership of Administrator Robert C. Weaver, to help provide the best possible living conditions for all Americans, whether they live in rural or urban areas.

Tell them that we know their problems.

Tell them that we consider their well-being and economic stability every bit as important to the national economy as that of their urban cousins.

Tell them that our programs are under way and we are working toward a goal of good living and full employment--a goal which includes all of them.

Tell them we can be effective.

Tell them we are ready to help.

We would be pleased to answer their questions at our Regional Offices or here in Washington.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

OUTLOOK FOR SUPPLIES AND PRICES OF HOUSING AND HOUSEHOLD EQUIPMENT

Talk by Laura Mae Webb
Household Economics Research Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 1:30 P.M., Wednesday, November 15, 1961

Housing and equipment, including household operation and furnishings, accounted for nearly 27 percent of the average family's expenditures in 1960, or about 1 percent more than in 1950, according to the U.S. Department of Commerce. ^{1/} Expenditures for housing, either as monthly rents or payments on a mortgage, are likely to be a much greater factor in the family financial planning of the average urban family than of the average farm family. For the farm family, payments on dwellings are usually included in the payments for the farm and do not enter into the family living financial planning except when the existing house is repaired or renovated, or a new one built. On the other hand, the manner of living of farm families has become very much like that of urban families in recent years and the two groups are similarly affected by changes in supplies, qualities, and prices for furnishings, and costs of household operation.

During the past year, prices for housing and equipment as measured by the Consumer Price Index (CPI) have increased only fractionally (0.4 percent) or one-third the rate of the total CPI (1.2 percent). (See chart 1.) However, prices of various goods and services included in this category have moved at different rates and in opposite directions during the period. (See chart 2.) The CPI measures price changes for the same quantities and qualities of goods and services from period to period. Individual families may have found that their expenditures for housing and equipment changed very differently than the CPI because their purchases did not cover the full range of goods and services included in the index, or because they bought different quantities or qualities of these goods and services than in previous years.

The following discussion describes briefly price movements of these various goods and services during the past year, and recent developments that are expected to affect the demand for and supply and prices of these goods and services during the coming year.

^{1/} Survey of Current Business, p. 14. July 1961. U.S. Income and Output, p. 150. November 1958.

Housing

Construction and repair

Most of the push in the construction sector of our economy since the business recovery began in March has been in residential construction. Total private housing starts, adjusted for seasonal changes, were at an annual rate of slightly less than 1.4 million units in September 1961. (See table 1, page 10.) This was about 37 percent above the December 1960 low. Farm housing starts, which constitute only a very small fraction of total private housing starts, were higher for each of the months April through August 1961 than for the corresponding months in 1960 but fell substantially in September.

The Housing Act of 1961 contains several provisions that will make it easier for many low- and medium-income families to obtain loans to repair or remodel their old homes or acquire new ones in the coming year. The Act authorizes the Farmers' Home Administration to make loans to families living in rural areas, even though they are not engaged in farming. Many of these families were not served by other Government housing programs and cannot qualify for credit from conventional sources. This bill also provides that a small loan to modernize or repair a farm dwelling may be made without requiring a mortgage on the farm, thus cutting down loan closing costs and speeding up loan making. Another feature of this bill that may lead to an improvement in the living conditions for many low-income rural families is that loans may be used to provide necessary wells for household water. The authority to make a loan for constructing a new farm dwelling or for construction improvements on an existing one is continued.

For urban families, the Act permits the Federal Housing Administration to insure mortgages on homes with both a smaller downpayment and a larger mortgage amount than before. It also provides for a maximum maturity period of 35 years in case of new homes. The Act sets up a new program under which that agency may insure loans for major home improvements, up to a maximum of \$10,000 per dwelling unit. Although primarily designed for homes 10 or more years old, new homes are eligible for this insurance if major structural changes are involved or if the improvements are necessitated by fire, flood, or other casualty.

A fairly recent development in the housing market, the shell house, is believed to have accounted for a considerable amount of new building in rural areas, especially in the South, during the past year. The typical shell house is frame with a completed exterior and an unfinished interior, with only 2- by 4-inch studs separating the rooms and no plumbing or electricity installed. Prices, consequently, are considerably lower than for conventionally built houses and are financed by installment credit such as that used for buying cars or washing machines, rather than by conventional mortgage credit. Most buyers are reported to be families who would not be able to qualify for conventional mortgage loans, or Government-guaranteed housing loans.

Builders of shell houses require that the purchaser own the land on which the house is to be built. If the land is worth enough (one builder requires 5 percent of the shell house price), a lien on the land is accepted in place of a downpayment. Installment payments usually extend over 5 to 7 years. Interest rates of 6 to 10 percent per year are quoted but because installment rates are figured on the total credit extended, rather than on the unpaid balance, the buyer's true annual interest rate is approximately twice this amount.

Many buyers of shell homes use installment credit as a means of obtaining materials required for covering the bare framework and installing electricity and plumbing. Since such installment credit is for a shorter period than for the purchase of the house, buyers frequently find themselves burdened with much higher monthly payments at the beginning than they anticipated. In order to lower payments on the house during this period, some builders introduced "balloon notes"--notes that required small equal monthly payments except for the final payment that amounted to 50 percent or more of the credit extended. Notes of this type have been severely criticized, and the practice is reported to have been discontinued by many builders. Some builders are now including materials for finishing houses in the purchase price of the shell home so that payments can be extended over the length of the house payments; others are providing more nearly completed homes with partitions, plumbing, and electricity installed. In the latter case, a longer repayment period is provided--sometimes up to 12 years--and monthly installments may be lower than for the true shell house which must be paid for over a shorter period of time.

Rents

Urban residential rents advanced at a slightly lower rate the past year than during the preceding year. (See table 2, page 11.) This represents a considerably slower rate of increase than occurred during the preceding 10 years.

The upward trend in rental prices is likely to continue during the coming year. Rental vacancies are slightly higher than a year ago but costs affecting rentals are continuing to advance. Home maintenance and repair costs rose during the past year 1.3 percent. Property tax increases have been widespread in recent years because of higher costs for local government services and have contributed to the upward trend for rents. Solid fuels and fuel oils are about 1.8 percent higher than a year ago, and water rates are up 2.9 percent.

Gas and electricity

Charges for fixed quantities of electricity to urban consumers remained practically unchanged during the past year. Compared with most other housing costs the increase since December 1952 has been moderate--about 7 percent, compared with about 14 percent for the total housing component. Gas prices to urban consumers have increased about 32 percent

in this period. More than one-third of this increase has occurred in the last 3 years, although there was a decrease in these prices during the past quarter.

Although residential electric rates have remained practically unchanged during the past year, some consumers may have found their bills considerably higher than a year earlier because they used more electricity. This probably happened if they purchased additional electrical equipment, such as fry pans, dryers, or air conditioners, or used such equipment more frequently. While increased use of electricity means a higher total bill, added consumption usually does not result in a proportionate increase in cost because of the rate structure for electric power. The Statistical Reporting Service of the USDA for several years has conducted a survey to determine the quantity of electricity farm families used during a summer month and the total charge for this electricity, and has computed the average cost per kilowatt hour for these bills. The following table shows that, while somewhat more than three times as many kilowatt hours were used on the average farm during a summer month in 1960 than in 1947-49, the average bill was only a little more than double that of the earlier period.

Electricity: Kilowatt hours used, average monthly bill per farm, and average cost per kilowatt hour

Period	U.S.A. average		
	Kilowatt hours used per farm	Average monthly bill <u>1/</u>	Average cost per kilowatt hour
		<u>Dollars</u>	<u>Cents</u>
Average 1947-49	196	6.13	3.13
1955	385	10.00	2.61
1958	487	11.60	2.38
1959	558	12.60	2.25
1960	615	13.20	2.14

1/ Generally a bill for a period ending in June or July.

Source: USDA. Agricultural Prices, p. 26. November 1960 and p. 30, May 1960. Farm Electricity Report. June 27, 1957.

Of course, many families use a substantial quantity of electricity for farm production purposes (e.g., for irrigation and brooders) so much of the increased consumption over the period may have been accounted for by increased use for farm production purposes. The average urban housewife would likely find the use of an additional large electrical appliance adding considerably more to the family's electrical bill than would the farm wife whose husband uses electricity for farm production purposes.

Solid fuels and fuel oils

Although during the period since December 1952 fuel prices have advanced somewhat less (11 percent) than the total housing index (about 14 percent), some types of fuels registered fairly substantial increases during the past year. Between September 1960 and September 1961, prices for fuel oil increased 3.4 percent, although solid fuels (mostly coal) were only fractionally higher (0.7 percent).

In their financial planning, many families may not think of the savings they can make by buying their winter supply of coal or fuel oil in the summertime. Chart 3 shows the price incentive offered by urban distributors to consumers who buy these fuels in the summer and thus reduce the heavy demand placed on the distributor during the heating season. Whether or not they can take full advantage of such savings depends, of course, on whether they have facilities for storing their whole year's requirements. But even if they can't store all they need for the next heating season, it might be worthwhile filling the coalbin or oil tank in the summer.

Other household operation commodities and services

Prices for laundry services and drycleaning and pressing continued their advance last year (2.0 and 0.9 percent, respectively). (See chart 4 and table 2.) While laundry service charges have increased, prices of washing machines have continued to decline, and soap and detergent prices are lower than a year ago. With these conditions prevailing, it is not surprising that per capita personal consumption expenditures for laundry services in 1960 dollars continued to decline last year, as they have been doing since 1955, indicating that an ever increasing number of families are doing their own laundry. The per capita expenditures for laundry services were as follows:

Year:	<u>Average expenditure 2/</u>
1955	\$6.27
1956	5.94
1957	5.70
1958	5.13
1959	5.06
1960	4.86

The past 18 months has witnessed a development that may lead to a decrease in per capita expenditures for drycleaning services in the coming years. At least four leading makers of large electrical equipment have introduced coin-operated drycleaning machines. 3/ Indications are

2/ U.S. Department of Commerce data deflated by Consumer Price Index for laundry services.

3/ McGraw-Hill Publishing Company. New York. Electrical Merchandising Week. January 23, 1961.

that the installation of these machines is expanding very rapidly. According to a trade source, it takes a fairly large number of families (about 1,000) to support one of these machines. Some companies prefer to sell their equipment to self-service laundry operators where families are in the habit of coming to do their laundry. Others prefer to have their machines set up in a professional drycleaning establishment where there is personnel that has the knowledge and experience to handle problems that come up. For instance, such an establishment could provide a spotting or pressing service. This is a new industry and companies are anxious that it get off to a good start.

One of the large cleaning organizations in the Washington, D. C. area opened a coin-operated drycleaning center in its store this fall. The letter announcing the new service listed some typical drycleaning assortments that could be put in one machine at one time. It gave the approximate cost of professionally drycleaning the sample assortment versus the cost of the coin-operated drycleaning method. The cost of using the coin-operated method was reported to be \$2.25 versus \$10.50 for professional service. The rate of \$2.25 did not, of course, provide for any spotting or pressing by establishment personnel.

Telephone rates to urban subscribers declined slightly during the past year. A recent survey by the Census Bureau indicates that three out of four households in the United States had a telephone in March 1960. ^{4/} A smaller percent of rural households had telephones than urban households, 67 and 79 percent, respectively. Less than one-half of households with incomes under \$1,500 had a telephone, compared with 95 percent with incomes of \$10,000 or over. Telephones were found in 77 percent of the households where there was a family group, and 63 percent of the households made up of single persons. Households with telephones were at a peak where the head was middle age or older.

The annual survey conducted by the Statistical Reporting Service, USDA, shows for the year ending June 1960 that the percent of farms with telephones was higher in almost all States than a year earlier. ^{5/} Fourteen States had gained 4 percent, another 14 had gained 3 percent, while only 4 States showed no gain. In 7 States, 90 percent or more of the farms had telephones; in only 8 States were more than half the farms without telephones. In Connecticut, 96 percent had a telephone. Some States have made remarkable progress since 1955. For example, in Florida only 36 percent of the farms had a telephone in 1955, compared with 65 percent in 1960. Likewise, in Georgia about 22 percent had a telephone in 1955 and 47 percent in 1960.

^{4/} U.S. Department of Commerce, Bureau of the Census. Characteristics of Households with Telephones, March 1960. Series P-20, No. 111. August 2, 1961.

^{5/} U.S. Department of Agriculture. Agricultural Prices, p. 40. February 15, 1961.

Housefurnishings and Equipment

Prices

Prices of housefurnishings and equipment as a group declined fractionally during the past year, but there was not uniformity in price movement, either as to relative amount or direction of change, between the different subgroups.

Appliance prices have declined uninterruptedly since mid-1951 and are now 2.4 percent lower than in September 1960. However, the coming year may bring a halt to this decline, or even a slight price increase. Five large manufacturers of electrical appliances have announced price increases ranging from 3 percent to 5 percent to their distributors; most of these increases are not to become effective until January 1962. The manufacturers attributed the increases to steadily rising costs of material and labor. Whether the distributor passes on this increase to the consumer will probably depend in large part on demand. Three other major producers reported they had no immediate plans for price increases. 6/

Demand and supplies

Sales of household durable goods earlier this year were very disappointing to the trade. From January to July 1961, retail sales of furniture and appliances were lower in each month than in the corresponding month of 1960 and for this 7-month period, 1961 sales averaged about 6 percent lower than in the corresponding period of 1960. 7/ However, August sales were 1 percent higher than a month earlier and 2 percent higher than August 1960.

During recent weeks the press has indicated a growing feeling of optimism among manufacturers and distributors that sales of household durable goods will be higher next year. The factor that probably contributes most to this attitude is the continuing upward trend in new housing starts. Recent surveys of consumers' intentions to buy during the coming year also support this view to some extent. According to the Federal Reserve Board's Survey of Consumer Intentions to Buy, conducted in July 1961, consumers' plans to buy television sets were somewhat higher than the July levels of the past 2 years and there was a slight increase in plans to buy radio and phonographic equipment. A survey conducted by the Survey Research Center of the University of Michigan in August 1961, found consumers' intentions to buy household goods somewhat higher than previously. However, the FRB survey indicated consumers' plans to buy washing machines and refrigerators during the next 6 months continued lower than in the same period of 1960.

6/ Wall Street Journal. October 20, 1961.

7/ U.S. Bureau of Census.

Current levels of production of housefurnishings and equipment reflect manufacturers' optimism regarding sales in the next few months. Production of such goods was 10 percent higher in August than in January 1961 when production fell to the low of the recent recession. 8/ For the past 3 months, production has been higher than in the corresponding months of 1960. Some large producers of electrical equipment reported their sales in September 1961 were substantially higher than a year earlier. 9/

Proposed credit legislation

One of the most interesting developments relative to household durable goods during the past year was the introduction of the "Truth in Lending Bill" in Congress. 10/ This is popularly known as the "Douglas Bill." This bill would require a person engaged in the business of extending consumer installment credit to furnish to each of his customers, prior to the consummation of a credit transaction, a written statement setting forth certain details concerning the credit. These details would include:

1. The cash price or delivered price of the property or service to be acquired.
2. The amounts, if any, to be credited as downpayment and/or trade-in.
3. The difference between the amounts set forth under (1) and (2).
4. The charges, individually itemized, which are paid or to be paid by the customer in connection with the transaction but which are not incident to the extension of credit (e.g., installation charges).
5. The total amount to be financed.
6. The finance charge expressed in terms of dollars and cents.
7. The percentage that the finance charge bears to the total amount to be financed expressed as a simple annual rate on the outstanding unpaid balance of the obligation.

Hearings were held for 8 days between July 17 and 27, 1961. Representatives from many organizations and groups interested in the bill

8/ Federal Reserve Board.

9/ See footnote 5.

10/ Truth in Lending Bill, S-1740. Hearings before a Subcommittee of the Committee on Banking and Currency. United States Senate, Eighty-Seventh Congress, First Session. July 17-27, 1961.

testified; some favored the bill while others opposed it. This bill did not reach a vote at the last session but will not need to be reintroduced next year, since it will be the second session of the same Congress.

Some witnesses in favor of the bill pointed out that the Government pays a great deal of attention to interest rates on housing mortgages in order to help homeowners, but pays little attention to charges on installment credit. They took the position that this was quite inconsistent since consumers repay more annually on consumer installment credit for such items as automobiles, household appliances, and furniture than on housing credit. According to the Federal Reserve Board, total outstanding installment credit (at the end of December 1960) was estimated to be \$43.3 billion; repayments in 1960 totaled \$46.9 billion. 11/ This compared with a mortgage debt outstanding on nonfarm one-to-four family houses estimated at \$141.8 billion, and an annual repayment estimated at \$16.8 billion 12/ in 1960.

The "Truth in Lending Bill" would exempt States with similar laws already in effect. Consequently, many States are working hard to get laws of their own passed since they want to retain authority for such regulation of consumer installment credit. Forty-seven States are considering changing their credit laws this year, some to the extent of completely overhauling existing legislation. 13/ The main goal of most of the new State provisions is to help curb questionable practices and to protect the consumer.

In summary, most indications seem to justify a fairly optimistic view for 1962. Although the trend in prices, in general, will likely continue upward, the rate of increase is expected to be moderate and supplies of goods and services will be quite adequate. Legislation passed this year may make it easier for some families to get mortgage credit for a new home or to modernize an existing one than it was before. If the Congress passes the "Truth in Lending Bill" at its next session, families will be provided with information that will make it easier for them to shop around and find the best credit available for their installment purchases.

11/ Federal Reserve Bulletin. August 1961.

12/ Truth in Lending Bill, S-1740. Hearings..., p. 41.

13/ Wall Street Journal. June 27, 1961.

Table 1.--Private housing starts, seasonally adjusted annual rates

Year and month	Total farm and nonfarm	Nonfarm	Farm <u>1</u> /
	<u>Thousands</u>	<u>Thousands</u>	<u>Thousands</u>
1960:			
April	1,327	1,307	20
May	1,331	1,309	22
June	1,279	1,264	15
July	1,227	1,209	18
August	1,355	1,335	20
September	1,089	1,067	22
October	1,273	1,237	36
November	1,220	1,206	14
December	996	987	9
1961:			
January	1,127	1,098	29
February	1,169	1,115	54
March	1,296	1,262	34
April	1,166	1,143	23
May	1,291	1,268	23
June	1,381	1,351	30
July	1,343	1,318	25
August <u>2</u> /	1,321	1,296	25
September <u>2</u> /	1,360	1,343	17

1/ Computed by Household Economics Research Division by subtracting nonfarm from total for farm and nonfarm.

2/ Preliminary.

Source: U.S. Bureau of Census.

Table 2.--Consumer price indexes for selected housing items

(December 1952 = 100)

Group and subgroups	September			Percent change	
	1959	1960	1961	Sept. 1959- Sept. 1960	Sept. 1960- Sept. 1961
Total housing	111.4	113.4	113.9	+1.8	+0.4
Rent	116.0	117.7	119.2	+1.5	+1.3
Home maintenance and repairs	119.4	121.4	123.0	+1.7	+1.3
Other home-owner costs:					
First mortgage interest rates	118.7	124.7	119.3	+5.1	-4.3
Property insurance rates ¹ / 	109.9	108.7	108.5	-1.1	-.2
Gas and electricity	115.2	119.0	119.0	+3.3	0
Gas	125.1	132.2	131.9	+5.7	-.2
Electricity	106.0	106.8	106.9	+.8	+.1
Solid and petroleum fuels.	109.6	109.4	111.4	-.2	+1.8
Solid fuels	110.1	109.4	110.2	-.6	+.7
Petroleum fuels	108.8	109.3	113.0	+.5	+3.4
Household operation	119.2	121.7	122.5	+2.1	+.7
Laundry soaps and deter- gents	119.1	118.6	116.6	-.4	-1.7
Laundry services	119.9	125.0	127.5	+4.3	+2.0
Drycleaning and pressing	115.8	117.0	118.0	+1.0	+.9
Telephone	108.5	110.6	110.0	+1.9	-.5
Water ² / 	141.6	146.6	150.9	+3.5	+2.9
Housefurnishings	96.1	96.2	95.9	+.1	-.3
Textiles	94.4	95.6	95.9	+1.3	+.3
Floor coverings:					
Rugs, wool Axminster..	107.4	108.6	109.2	+1.1	+.6
Carpets, wool broad- loom	111.6	114.1	110.8	+2.2	-2.9
Carpets, rayon broad- loom	87.6	88.7	85.2	+1.3	-3.9
Rugs, felt base	118.6	119.6	122.7	+.8	+2.6
Furniture and bedding ..	100.4	100.5	101.5	+.1	+1.0
Furniture	99.2	99.1	100.6	-.1	+1.5
Bedding:					
Sofa beds	104.0	104.3	104.6	+.3	+.3
Mattresses	103.8	105.5	103.9	+1.6	-1.5
Appliances	84.9	83.9	81.9	-1.2	-2.4

¹/ May data; priced in May and November only.

²/ March data; priced in March only.

Source: U.S. Bureau of Labor Statistics.

Chart 1.--CONSUMER PRICE INDEXES FOR ALL ITEMS, HOUSING, AND RENT

Dec. 1952 = 100

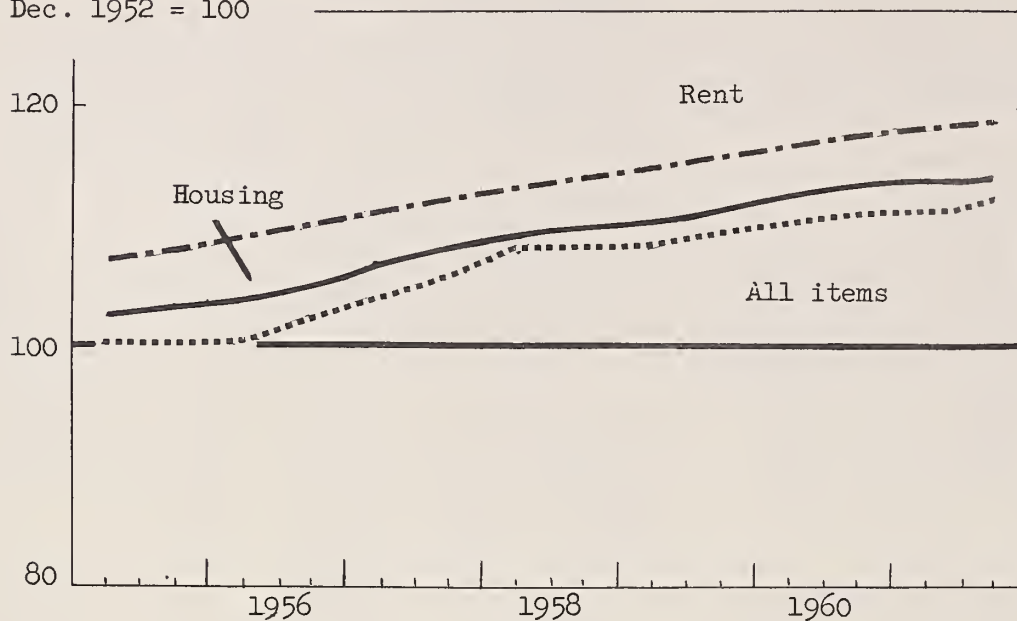
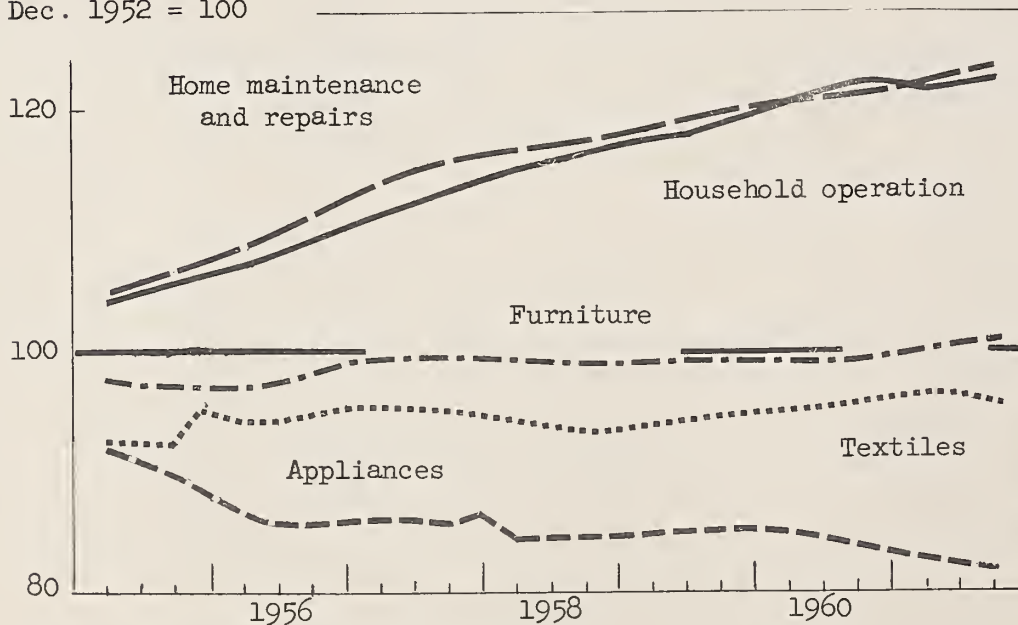


Chart 2.--CONSUMER PRICE INDEXES FOR SELECTED HOUSING GROUPS

Dec. 1952 = 100



Source: Bureau of Labor Statistics

Chart 3.--CONSUMER PRICE INDEXES FOR SELECTED HOUSING ITEMS

Dec. 1952 = 100

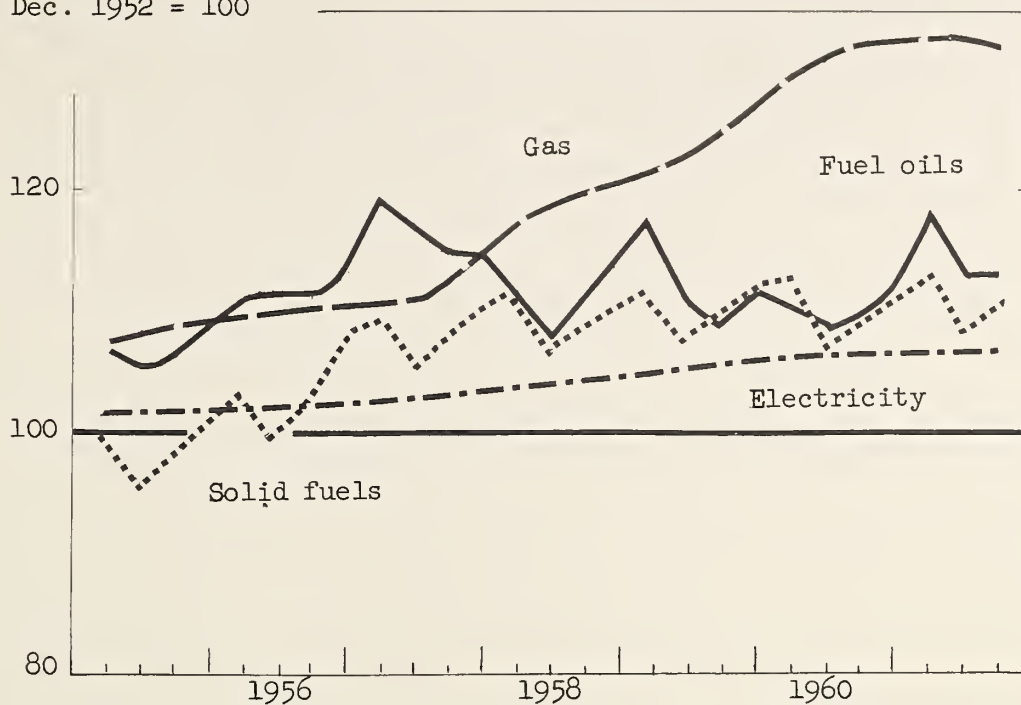
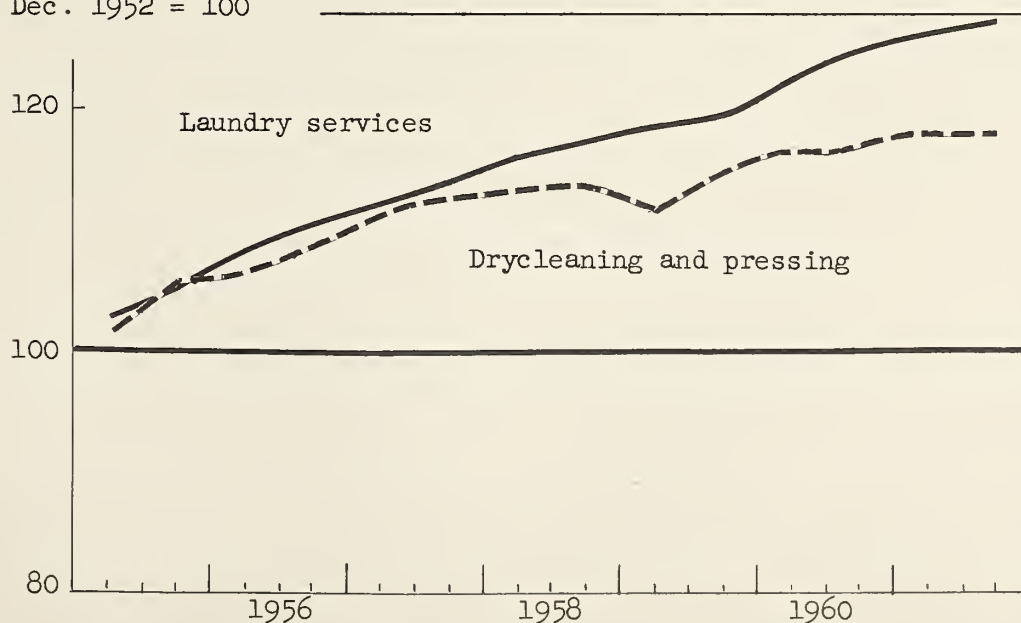


Chart 4.--CONSUMER PRICE INDEXES FOR SELECTED HOUSING ITEMS

Dec. 1952 = 100



Source: Bureau of Labor Statistics



OUTLOOK FOR VOLUNTARY HEALTH INSURANCE

by

Agnes W. Brewster and Lucy M. Kramer
Division of Public Health Methods, Public Health Service
Department of Health, Education, and Welfare

Status of Health Insurance in Country as a Whole

What is national expenditure picture?

What services are insured?

Who is enrolled?

Situation in Rural Areas with Respect to Health Insurance

Enrollment is low

Why has rural coverage lagged?

New Developments: What Promise for the Rural Population?

Conclusion

Paper to be given before the 39th Annual National Agricultural Outlook Conference, U. S. Department of Agriculture, Washington, D. C., November 16, 1961 at 11:00 a.m. session on Medical Care, Outlook for Consumers, by L. M. Kramer for both authors.

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Status of health insurance in the country as a whole

In order to understand the problems of medical care and health insurance coverage facing the rural population in the United States, and to evaluate the new developments in relation to those problems, it is necessary to have the broad perspective of voluntary health insurance in the country as a whole at the present time.

At the end of 1960, an estimated 132 million persons, about 3 out of every 4 Americans, had some type of health insurance coverage, and the numbers are increasing.

What segments of the population have poor coverage or no coverage? Why? What do the numbers with some insurance mean in terms of the contribution insurance is making to budgeting a family's medical costs? What do they mean in terms of national expenditures for health insurance? How are they distributed among the specific elements of medical care costs, e.g., hospitalization, physicians' services? What medical expenses are met and in what ratio to the total cost? What medical expenses are not being met? Why?

These are a few of the many questions that arise in considering voluntary health insurance and the rural population. I will try to answer some of them to the best of my ability, relying on your indulgence as well as your informed interest and on the kit of useful material that has been furnished you.

What is national expenditure picture?

Private expenditures for medical care in 1960 were \$19.6 billion. (Table 1) Hospital care and insurance for hospital expenses accounted for 30 percent of this total, while expenditures for physicians and for surgical and medical insurance took 28 percent. Drugs, prescriptions, and appliances used up another fourth, with little of it through the avenue of insurance. Dental care expenditures have been declining relatively, but represented \$2 billion in 1960, again with little of it financed through prepayment.

Note: Paper presented by L. M. Kramer for both authors.

In 1960, some 30 percent of our spending for medical care--\$5.8 billion--was for health insurance and prepaid care. Five billion dollars was returned to consumers as benefits, and \$845 million was used to operate the health insurance industry, establish reserves, pay premium taxes and the like. Two-thirds of insurance premiums and benefits relate to hospitalization.

Leaving out the cost of operating the insurance plans (\$845 million), and considering only the purchase of medical services and supplies, of the \$18.7 billion that we as a nation spent privately for medical care, only \$5 billion or 27 percent was met by health insurance. We spend more from tax sources for medical care than we spend through voluntary health insurance.

In the field of hospital care, private insurance is meeting 63 percent of the bill. In covering physicians' charges, it is meeting only 31 percent. As the enrollment figures would lead you to suspect, surgical services and physicians' care in the hospital are receiving most of the insurance dollars for physicians' services. Paying for care in the doctor's office and the patient's home absorbs a great many of our medical care dollars, but it is seldom insured. Items like drugs and dentistry, nursing homes and nurses--42 percent of the total-- are almost entirely outside the insurance umbrella.

It is evident, then, that whereas health insurance in some form may be spread over three-fourths of the population, there are many gaps in the medical protection it is providing the average family.

What services are insured?

Of the 132 million persons estimated by the Health Insurance Council to have some form of health insurance in 1960, hospitalization coverage was the most common--73 percent covered, 27 percent not covered. Surgical coverage was less common--about 121 million or 67 percent of the total population had some type of surgical coverage, with 33 percent not covered. Only about 15 percent of the population had coverage for expenditures outside the hospital--e.g., doctors' visits, drugs, dentists and other professional services--yet at least 50 percent of the nation's medical bill goes for expenses outside the hospital.

Who is enrolled?

Enrollment is uneven throughout the country. The highly industrial states have 80 percent of the population enrolled. Mississippi has under 45 percent. Urban industrial workers and their families are almost all enrolled. This is the result largely of collective bargaining agreements, but it also is facilitated by employment in large groups. Group insurance has spread rapidly as employers paid more and more of the premium for dependents as well as workers. Group insurance is difficult to develop for rural populations.

Situation in rural areas with respect to health insurance.

Enrollment is low.

Farm income, I am sure you here do not need to be told, is relatively low when compared with nonfarm income. In 1959 it was \$965 per capita, or about 45 percent of nonfarm income of \$2216.

Studies have shown that the lower the income, the less the amount of health insurance coverage. At the same time, the greater the percent of income spent on medical care, the greater the need for a mechanism to spread out medical care costs. It is a vicious circle, at the center of which is the farm population.

A study made by the Department of Agriculture in 1955 of over 3,000 farm-operator families with income of less than \$2000, showed that about 8 to 10 percent of their disposable income went for medical care, as compared with only about 5 percent in the general population for the same year. (Table 2)

The U. S. National Health Survey report on health insurance enrollment in 1959 showed that where annual income was under \$2000, only 33 percent of the population had hospitalization insurance, only 27 percent surgical insurance, and only 9 percent insurance for doctors' visits outside the hospital. Where incomes were \$7000 or more, the comparable percents were 84, 80, and 28, respectively. (Figure 1)

The same National Health Survey report gave some interesting data on the types and extent of health insurance found in urban and rural areas in 1959. In the urban areas, 72 percent of the population had hospital insurance; in rural nonfarm areas, 68 percent; in rural farm areas, only 45 percent. For surgical insurance, the ratios were 66, 64, and 40, respectively. For doctors' visits, low in coverage for all types of communities, the ratio was 20, 21, and 12. The proportions of the population enrolled in urban and rural nonfarm areas are not too far apart, but the rural farm coverage is considerably below both the other areas, for every type of health insurance. (Figure 2)

Based on a National Health Survey study of discharges from short-stay hospitals from July 1958 to June 1960, with respect to any part of a hospital bill paid for by insurance, the proportions for urban and rural nonfarm areas were fairly close (70 percent and 69 percent, respectively). For rural farm areas, however, it was lower--55 percent. Although 51 percent of all patients had 75 percent or more of their hospital bill paid by insurance, among rural farm groups only 39 percent had insurance that met this standard of adequacy. And 45 percent had none of the bill paid by insurance. (Table 3)

Why has rural coverage lagged?

Much of the rural population of necessity has to obtain its health insurance through its own efforts, on an individual basis. Only in recent years have the nonprofit Blue Cross and Blue Shield plans made an effort to find customers outside employed groups through various types of community enrollment drives or through groups such as dairy cooperative members. The other avenue for obtaining nongroup coverage has been through individual accident and health policies whose costs may be high or the benefits poor, or both. With other demands for the farmer's limited income and no employer contribution, it is not surprising that health insurance has not spread. Perhaps, too, there is a communications lag. Factory workers meet daily and exchange experiences and the word spreads as to the assistance Tim Smith had from his Blue Cross plan when Mary was operated on.

It has been said that the farm worker is more expensive to insure because--in the absence of workmen's compensation--his health insurance provides benefits for at-the-job accidents and injuries, as well as for the nonwork-connected claims. His coverage, in effect, must be for 24 hours a day. The city worker, on the other hand, is covered by workmen's compensation 40 hours of each week so his health insurance covers nearly 25 percent less time.

To try to improve on the skimpy benefits that may be provided by available policies, there is a growing tendency to purchase a second or third policy. The expectation then is that the additional payments from the different insurance companies will approximate the surgeon's charge or the hospital's ever higher charges. If the insurance benefits exceed the charges for the insured service, the excess can be devoted to paying for uninsured services or supplies. The trouble with this approach is that the combined amount spent for several small policies could, if channeled better, purchase far more comprehensive insurance with more of the premium returned in benefits. On the average, individual accident and health insurance pays back only 50 cents on the dollar; the rest goes for selling the policy, profits, and other nonmedical items. Much more could be done through church groups, farm organizations, and other community groups to provide for group purchase of insurance among rural people.

New developments: What promise for the rural population?

Although the picture painted up to this point looks dark, the future of health insurance looks more promising--for the country as a whole and for the rural population.

There are signs that coverage in rural areas may be improving as a result of various economic and social mechanisms.

At the present time there are many rural people with some industrial employment having health insurance as a fringe benefit. As a matter of fact, although only 40 percent of rural farm families had any kind of health insurance in 1956, in 1959 45 percent had some insurance; for the rural nonfarm families, the coverage increased from 64 percent to 68 percent during the same short period.

Consumer pressures throughout the country for better benefits are beginning to be felt. The rapidly rising medical costs are making people more conscious of the need for budgeting for health costs, particularly in rural areas where the cash income is so low. This is bringing about some improvement, but one should be aware that a good part of the so-called improvement is a running uphill after rising costs. In covering expenditures, insurance has slowed up in its rate of advance.

Finally, the nature of health insurance itself is changing--expanding present benefits in a few instances to include such items as dental and drug benefits, and adding new benefits such as home care and nursing-home care to relieve pressure on hospitals in long-term illness. Health insurance is going in the direction of comprehensive medical care, but it is still a long way from the goal.

For the sake of brevity at this point (since time has rapidly slipped away in the boundless sea of health insurance), I will merely list the current developments in the United States that have a direct bearing on health insurance coverage in rural areas.

1. The rural population, per se, has been decreasing. In 1900 it was 60 percent of the total population; in 1960 it was about 30 percent. With the shift in population, first to the urban areas, then to the suburban fringe of metropolitan areas, have come new opportunities for individuals to become part of a working group. Industries, service and research organizations, large shopping areas, etc., have been built on the metropolitan fringe or in rural settings.

2. With the introduction of rural electricity in many areas, and the grants and loans made possible under the new Area Redevelopment Act passed in May of this year (P.L. 87-27, 75 Stat. 47), one anonymous authority, writing in the REA paper Rural Lines in June 1961, states flatly that "There are few areas today which do not possess at least one resource with commercial possibilities."

Many instances are given of existing and projected "Factories in the Farm Yard," with forest industries one of the most promising rural resources, since about one-half of all low-income farm land is in timber. "Farm yard" industries vary from those closely connected with the soil and land and farm produce, to some not connected with the farming at all, such as the fish-hook factory on the Pine Ridge Indian Reservation in South Dakota which employs almost 500 Indians. (Lest it be misunderstood, this particular rural group has no need for health insurance coverage, since it has comprehensive medical care under the direct-service program

of the Public Health Service in the same fashion as maritime workers, Public Health Service Commissioned Corps members, etc. Such medical care is one of the rights extended to the Indians in return for relinquishing a large part of these United States.)

However, the point being made here is that the distinction between an urban-industrial and a rural-industrial community seems likely to grow less in the years to come.

3. In the last 20 years the proportion of the civilian labor force engaged in agriculture has decreased by one-third, although the total labor force has increased by some 40 percent. Particularly has the employment of women in nonagricultural pursuits increased during those years. (Table 4)

More urban women work than rural women, but there is a trend toward greater full-time employment among rural women working away from home than among urban women to whom part-time work is more available. This is supported by a recent survey conducted in Ohio by the Institute of Home Economics of the Department of Agriculture.

There has been an increase in the number of rural women in the non-farm labor force in recent years, many of them going into industries that are likely to have group health insurance coverage for them and their families. In 1950, 20 percent of farm women (14 years and over), participated in the labor force, of whom 59 percent were employed in nonfarm jobs. In 1960, the participation had increased to 26 percent, with an increase to 67 percent of those farm women employed in nonfarm jobs.

As of March 1960, women made up 35 percent of the total labor force. If one breaks their employment down by residence, 38 percent of the urban labor force were women, 30 percent of the rural nonfarm labor force, and 26 percent of the rural farm. The distribution of the types of industries in which the women are employed shows that at least 50 percent of the urban and rural nonfarm women are employed in industries susceptible of group coverage (clericals, salespersons, factory operatives, etc.), and 25 percent of the women drawn from rural farm areas are in such industries. (Table 5)

4. Better medical care is getting nearer at hand for rural people. In Ohio, for example, they no longer have to go to the Cleveland Clinic for specialist care, since many of the specialists are now locating in the smaller towns. This situation is repeated throughout the country as a recent study of medical college graduates from 1915 to 1950 showed. There has been a steadily increasing percentage of specialists among medical school graduates, and an increasing percentage of such graduates have located in small communities at the expense of the larger cities, thus bringing increased medical services to the rural population. There has also been a steady development in medical working relationships

between urban centers and smaller communities in terms of visiting specialists on a regular schedule, patient referral for specialist care, etc. This too has great potentialities for better medical care for rural people.

In the old days, an encounter with a family doctor and his little black bag, given a serious illness such as pneumonia, might mean a long all-night vigil by the patient's side in his farm home, with a 50-50 chance of its doing some good--either the patient survived or he didn't, despite the doctor's devotion. Medical science and knowledge have advanced to such a complex point that, as the Somers' put it, "Today it is no longer possible, in terms of either knowledge or cost, for a single doctor to deliver a total product."* A given illness might mean hospitalization of the patient, trained nurses and similar professional medical care, oxygen tent and other equipment, new so-called "miracle" drugs and medications, a group of specialists and consultants working as a team, and a good chance of the patient's recovery.

People now are beginning to see the virtues of good medical care, and find it worth purchasing. This attitude must be fostered, particularly among rural people who hitherto have generally not had the advantages of large urban facilities.

Group practice is a way of securing better quality of medical care, by making combined medical knowledge and medical facilities more easily available. The results of a recent Public Health Service study of medical group practice since World War II is summarized in the Journal of the American Medical Association for September 16, 1961, under the title "The Growth and Development of Medical Group Practice." In it Drs. Pomrinse and Goldstein point out that medical group practice clinics, particularly in small groups, have increased markedly in rural and semi-rural areas. In 1946 there were 368 group practice clinics in the country as a whole. In 1959 there were almost 500 in isolated rural and semi-rural areas alone, nearly half the country's total of 1,100. Most of the plans were nonprepaid.

Group practice is coming to a number of smaller towns that serve rural populations. For example, the Rip Van Winkle Clinic in upstate New York serves the population in 8 centers in Columbia County, New York, much of it rural. There are similar group practice centers in Springfield, Illinois; Santa Clara, California; and older ones such as the Farmers Union Center in Elk City, Oklahoma, and the community health center in Two Harbors, Minnesota. Rural people can perhaps make arrangements with existing groups of doctors to care for their medical needs.

* Herman M. Somers and Anne R. Somers, Doctors, Patients, and Health Insurance, Washington, D. C.: Brookings Institution, 1961, p. 28.

5. An analysis of the Hill-Burton hospitals built in the last 10 years or so, indicates that two-thirds of the general hospital beds are in rural areas, towns, or small cities. This, together with group practice clinics, makes medical care services and facilities more easily available to the rural population. The trend is likely to continue.

6. The Federal Employees Health Benefits Act, passed within the last two years, is one with which you all here are personally familiar. The Act has extended the benefits of health insurance to some 2 million Federal employees outside of Washington, D. C., including some 31,000 rural letter carriers, together with their dependents. To that extent health insurance has already come rapidly to a segment of the rural as well as urban population scattered over all parts of the mainland and the new States of Hawaii and Alaska.

7. Coverage for rural residents is coming in many other ways. In several States, State, county, and local employees are covered by health insurance programs, and the number will probably increase.

In some States, professional groups, such as teachers, regardless of where they live, have some type of group health insurance coverage. Blue Cross and Blue Shield have open enrollment periods which are available to individuals in rural areas. With the increased concern over the health of the domestic agricultural migrant worker, some program of health services may result from the activities of the President's Committee on Migrant Labor and the Senate Subcommittee on Migratory Labor, which will give domestic migratory workers health insurance protection, now mandatory for off-shore and foreign agricultural workers.

8. Along with the extension of health insurance coverage to rural areas through various mechanisms, and along with the increase in available medical facilities and services, changes in the nature of health insurance coverage itself, towards more inclusive benefits, through extension and addition of services that will be available to the rural population as well as the general population, can be anticipated.

In their infancy now are prepaid dental care programs; special health insurance protection for the aged; prepaid drug plans; drugs at discount prices and by mail-order; hospitals as community centers of prepaid services; prepayment for home nursing services, homemaker services and nursing home and convalescent hospital care; prepayment for mental illness and alcoholism.

Conclusions

The picture for the rural population with respect to health insurance, given the many new developments, should become steadily brighter. With the year-to-year variations in farm income, the role of health insurance

in assuring adequate medical care to an important sector of our population is increasingly recognized. The growing off-the-farm employment of rural people provides an economic cushion that will help to pay for health insurance even in poor crop years.

Increasingly apparent, too, is the role of those who work with and among rural people. The place of health insurance in family budgeting cannot be oversold. The value of group action in financing medical care is as apparent in this area as it has been in other areas of concern to this group. If we are reading the signs correctly, the consumer is rapidly turning his wants into effective demand, and the rural consumer, with well-informed leadership, will not be far behind.

Table 1.--Private expenditures for medical care and voluntary health insurance in the United States, 1960

Type of expenditure	1960	
	Amount (in billions)	Percentage distribution
A. <u>Total</u>	<u>19.6</u>	<u>100.0</u>
Direct payments	13.8	70.4
Health insurance premiums	<u>5.8</u>	<u>29.6</u>
Insurance benefits	<u>5.0</u>	<u>25.5</u>
Prepayment operating expenses .....	.8	4.1
B. <u>Total</u>	<u>19.6</u>	<u>100.0</u>
Hospital services:	<u>5.9</u>	<u>30.1</u>
Direct payments	<u>2.0</u>	<u>10.2</u>
Insurance benefits	3.4	17.3
Prepayment operating expenses .....	.5	2.6
Physicians' services:	<u>5.4</u>	<u>27.6</u>
Direct payments	<u>3.5</u>	<u>17.9</u>
Insurance benefits	1.6	8.2
Prepayment operating expenses .....	.3	1.5
Other:	<u>8.3</u>	<u>42.3</u>
Dentists' services	<u>2.0</u>	<u>10.2</u>
Medicines	3.9	19.9
Appliances	1.2	6.1
Other professional services .....	.9	4.6
Nursing homes .....	.3	1.5

Source: Based on Louis S. Reed, "Private Medical Care and Voluntary Health Insurance," to appear in Social Security Bulletin, Vol. 24, No. 12, December 1961.

Table 2.--Family living expenditures of farm-operator families with incomes under \$2,000, by disposable family money income, United States, 1955

Category	Money income after taxes		
	Under \$2,000	Under \$1,500	\$1,500- 1,999
Percent of families	100.0	78.3	21.7
Average family size	3.4	3.4	3.8
	Average expenditure per family (\$)		
Total expenditures	2,001	1,868	2,480
Food and beverages	637	599	771
Shelter <u>1</u> /	478	446	594
Clothing	270	244	361
Medical care	190	185	209
Transportation	204	186	268
Other family expenses <u>2</u> /	223	208	278
	Percentage distribution		
Total expenditures	100.0	100.0	100.0
Food and beverages	31.8	32.0	31.0
Shelter <u>1</u> /	23.9	23.9	24.0
Clothing	13.5	13.1	14.6
Medical care	9.5	9.9	8.4
Transportation	10.2	10.0	10.8
Other family expenses <u>2</u> /	11.1	11.1	11.2

Source: Laura Mae Webb, "The Outlook for Family Living Expenditures among Low-Income Rural Families," address before 38th Annual Outlook Conference, U. S. Department of Agriculture, Washington, D.C., Nov. 16, 1960, p. 11 (processed).

Note: Components may not add to totals due to rounding.

1/ Includes dwelling upkeep, housefurnishings and equipment, and household operation.

2/ Includes recreation, personal care, tobacco, reading and education, and other miscellaneous family living expenses.

Table 3.--Average annual number of discharges from short-stay hospitals, and percent distribution by fraction of hospital bill paid for by insurance, by residence of patient, United States, July 1958 - June 1960

Residence	Total discharges		Discharges for which some fraction of bill was paid by insurance				
	(thousands)	(%)	Fraction of bill paid by insurance				
			Any part	Under 1/2	1/2 - 3/4	3/4+	
All areas	19,875	100.0	68.0	5.4	11.3	51.3	
Urban	11,939	60.1	69.5	5.2	12.3	52.1	
Rural nonfarm	5,984	30.1	69.3	5.8	9.6	53.8	
Rural farm	1,952	9.8	54.6	5.0	10.7	38.9	

Source: Public Health Service, National Health Survey, Health Statistics Series B - No. 30, "Proportion of Hospital Bill Paid by Insurance--", Patients discharged from Short-term Hospitals, United States, July 1958 - June 1960." PHS Pub. No. 584-B30, November 1961, Table 7.

Table 4.--Employment status of noninstitutional population in the United States, total and by sex, 1940, 1959 and 1960

Year: Total and by sex	Total non- institutional population (millions)	Total labor force (incl. armed services) (thous.)(% non- inst.)	Civilian labor force (14 years and over)				Not in labor force (thousands)
			Total	Employed		Unemployed	
				Total	Agri- culture industries			Nonagricul- tural industries
Total 1940	100.4	56,180 56.0	55,640	47,520 9,540	37,980	8,120	44,200
1959	123.4	71,946 58.3	69,394	65,581 5,836	59,745	3,813	51,420
1960	125.4	73,126 58.2	70,612	66,681 5,723	60,958	3,931	52,242
Male 1940	50.1	42,020 83.9	41,480	35,550 8,450	27,100	5,930	8,060
1959	60.1	49,081 81.7	46,562	44,089 4,749	39,340	2,473	11,019
1960	61.0	49,507 81.2	47,052	44,485 4,678	39,807	2,541	11,493
Female 1940	50.3	14,160 28.2	14,160	11,970 1,090	10,880	2,190	36,140
1959	63.3	22,865 36.1	22,832	21,492 1,087	20,405	1,340	40,401
1960	64.4	23,619 36.7	23,587	22,196 1,045	21,151	1,390	40,749

Source: Department of Labor, Bureau of Labor Statistics, Employment and Earnings, Vol. 8, No. 3, September 1961, pp 1-2, Tables A1, A2.

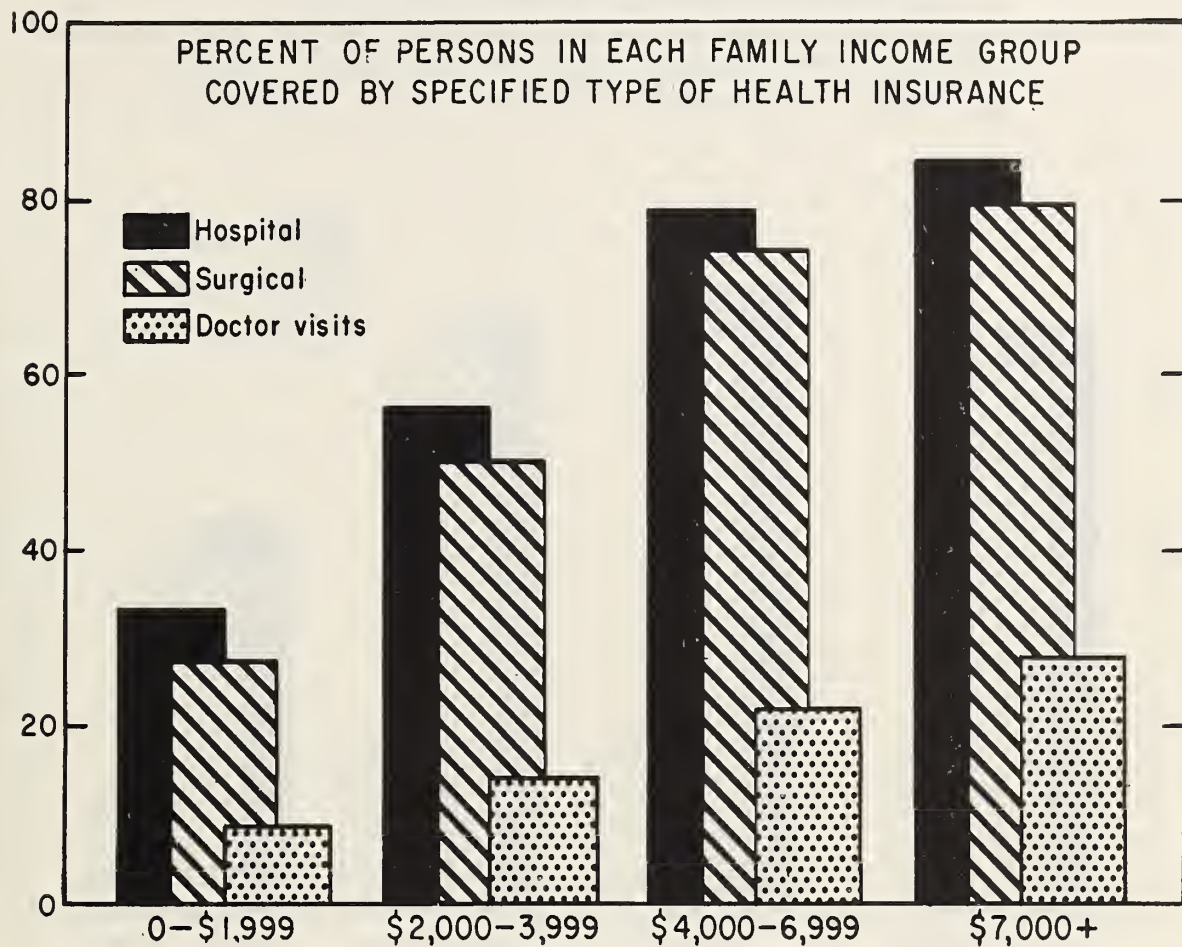
Table 5.--Percentage distribution of all women in the labor force by occupation, and rural women by residence and occupation, 1960

Occupation	All women <u>1/</u>	Rural women <u>2/</u>	
		Farm	Nonfarm
Professional, technical and kindred workers.....	13.3	9.3	12.9
Farmers and farm managers	0.4	6.4	0.4
Managers, officials, and proprietors (except farm).....	4.6	1.5	6.1
Clerical and kindred workers	30.0	10.5	25.3
Sales workers	7.2	4.8	8.8
Craftsmen, foremen and kindred workers	0.9	0.6	1.0
Operatives and kindred workers	16.1	11.2	16.3
Private household workers	9.8	10.3	11.4
Service workers (except private household workers)	15.4	8.2	16.1
Farm laborers and foremen	2.0	37.1	1.3
Other laborers	0.3	0.1	0.4
Total	100.0	100.0	100.0

1/ From U. S. Department of Labor, Bureau of Labor Statistics, Special Labor Force Report No. 13, "Marital and Family Characteristics of Workers, March 1960," Preprint No. 2364 from the Monthly Labor Review, April 1961, Table F, p. A-12.

2/ From U. S. Department of Commerce, Bureau of the Census, Series Census--AMS(P-27), No. 28, April 17, 1961, "Farm Population," Table 3, p. 16.

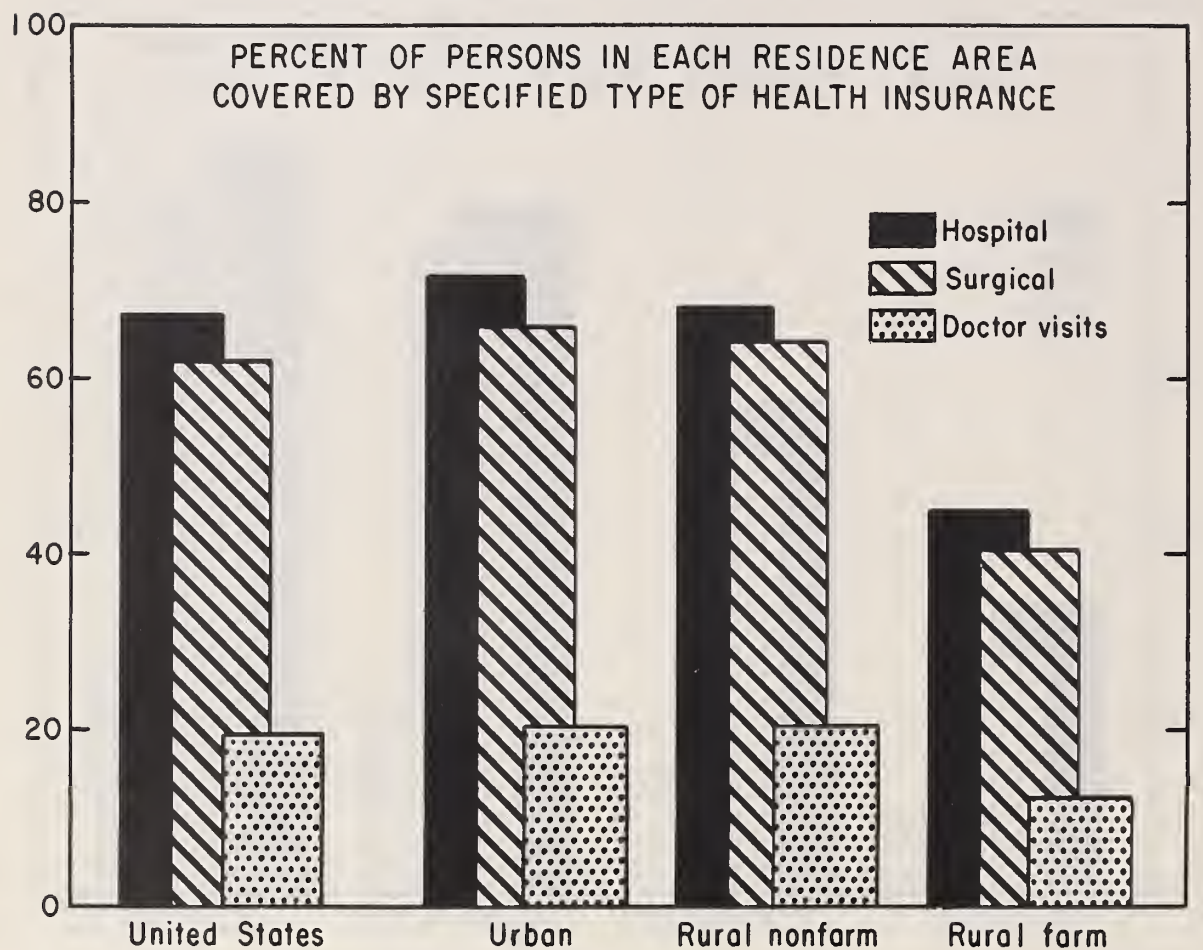
Health Insurance—Interim Report
July-December 1959 (No. 584-B26)



Source. U.S. National Health Survey

Figure 1.

Health Insurance—Interim Report
July-December 1959 (No. 584-B26)



Source: U.S. National Health Survey

Figure 2.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Research Service

RURAL FAMILY HOUSING EXPENDITURES

Talk by Jean L. Pennock
Household Economics Research Division
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 1:30 P. M., Wednesday, November 15, 1961

It is generally recognized that farm and rural nonfarm housing is poorer than urban housing. It is more likely to be dilapidated. Farm but not rural nonfarm housing is likely to be older. In both, the incidence of overcrowding is greater. The data from the 1960 Census of Housing are not available as yet to prove these points, but they were true in 1950 (see table 1) and there is little reason to believe that they are not still true. Since in the last decade a relatively large part of the new construction was in the rural nonfarm segment, we can expect that this segment has pulled further away from the farm segment and closer to the urban.

An area study 1/ has shown that, in the Southeast at least, the housing of rural families was below the level that their annual incomes and net worth could support. This situation does not exist because of widespread failure on the part of the families to recognize the need for housing improvement; more than 70 percent of the families surveyed reported deficiencies in their housing. Indications are that one of the important causes is that rural families have greater difficulty than urban families in obtaining mortgage credit for housing. 2/

In view of this situation it is pertinent for this group to examine the available data on expenditures for housing repairs and improvements and to consider the various factors affecting expenditures in order that we can work with most effectiveness to bring about improvement in rural housing.

Perhaps we should begin by recognizing that a great deal of work to improve rural housing has already been done. In 1960, 96 percent of all farms were receiving central station electric service in contrast with 77 percent in 1950 and 30 percent in 1940. 3/ Since in the past a larger proportion of rural nonfarm than of rural farm dwellings have had electricity, we can conclude that bringing electricity into the rural home is a job that to all intents and purposes has been completed. We are not so far along on running water although here again great strides

1/ Financing Rural Homes and Rural Housing Situation and Needs. Bulletins 333 and 334, Agricultural Experiment Station, Auburn University, Auburn, Alabama. 1961. Similar studies of a wheat area in Colorado and a grain-livestock area in Missouri are under way.

2/ Committee on Banking and Currency, Subcommittee on Housing, United States Senate. Study of Mortgage Credit. U. S. Government Printing Office, Washington, D. C. 1958.

3/ Rural Electrification Administration release. January 31, 1961.

have been made. In 1955, 64 percent of all farm-operator dwellings had running water inside the structure. ^{4/} Other housing on farms is less likely to have running water than operators' housing, and in running water as in electricity, rural nonfarm is ahead of rural farm housing.

Urban-rural differences in housing expenditures

A logical approach to a discussion of rural expenditures on housing is to relate these expenditures to the national average and to contrast them with the urban average, thus putting them into the proper perspective. This is not so easily done, however, for we have relatively little data on the larger part of the rural community--rural nonfarm families. This lack applies to most types of expenditure data, food being the exception. The last national survey of expenditures of rural nonfarm families covered the year 1941. Since then the Bureau of Labor Statistics has issued nationwide data for urban families for 1950 and this Department in cooperation with the Bureau of the Census has issued data for farm-operator families for 1955. This hole is about to be plugged, however. As you may know, the BLS is making a two-stage family expenditure study to update the Consumer Price Index. The collection of the first stage has been completed--a national sample of urban families covering the year 1960. The second stage will be undertaken in 1962 with the USDA cooperating and there will be an across-the-board sample and data on a comparable basis for all three segments of the population as well as national totals for 1961.

We do have a new source of data in the field of housing expenditures, however--the recently instituted Census series, Residential Alterations and Repairs, which carries a C-50 serial number. This should be a useful and welcome tool in the field, particularly as there will be current data available at all times in its quarterly reports. It has some limitations for our purposes, however. It is oriented toward aggregate data, and to obtain a complete cross section, is based on reports for "properties" which may include more than one dwelling. It is sometimes difficult, as a result, to get the data onto a family basis, and the characteristics of the occupants are not available as a sort. In the first release covering the year 1960, moreover, some information is broken out on farm housing but we are given no data for rural nonfarm.

According to this new Census series, expenditures for work on existing dwellings averaged about \$250 per dwelling in 1960. The average expense on farm dwellings was roughly \$165 as compared with \$260 for nonfarm, both rural and urban.

In this Division's spot studies of families living in the open country we can go one step further and compare the spending of rural farm and nonfarm families. Since, however, ours are studies of family

^{4/} U.S. Department of Agriculture and U.S. Department of Commerce. Farmers' Expenditures in 1955 by Regions. USDA Statistical Bulletin 224, Government Printing Office, Washington, D. C. 1958.

expenditures, in which the expenditures of landlords on the dwellings in the survey have not been ascertained, comparisons must be confined to owned dwellings to have full coverage of all expenditures. In making these comparisons, allowance must also be made for a difference in definitions. The farm dwellings referred to in this paper are the dwellings of operators on farms. Other dwellings on farms, in the Census study included in the farm group, in our studies are classed as nonfarm. Our procedure tends to raise the level of farm housing and depress the level of nonfarm housing.

In three studies we made in low-income areas, we found very different relationships between the expenditures of rural farm and rural nonfarm families. In South Central Kentucky, families in owner-occupied farm dwellings spent more on their dwellings than families in owned nonfarm homes, while in East Texas, expenditures of the two groups were about the same. In the Northern Texas Blackland, the situation was the reverse of that in Kentucky, expenditures on owned rural nonfarm dwellings greatly exceeded those on owned farm dwellings. (See table 2.) Our estimates of the current value of these dwellings also show the same general relationships.

These findings throw a different light on the Census data I cited earlier indicating that rural nonfarm housing tends to fall between urban and rural farm. For the nation as a whole this is the pattern, but we should not expect this pattern in every case when we work on down to area data. As is so often the case, the variation that exists across the nation is lost to sight in the average. From our small studies we can also find an important clue as to when rural nonfarm housing will be better than farm housing and account for larger expenditures and when it will be poorer and have less spent on it. Rural nonfarm areas can be put in an array from "deep country," where there is no way to make a living except by farming or providing the relatively small volume of services the farm community needs, to areas that can be described as the bedrooms of industrial centers. In the first type of area the difficulty of making a living away from the farm is reflected in nonfarm housing poorer than that of the neighboring farm families. The Kentucky area was of this type. In the five Kentucky counties studied there was only one town large enough to meet the Census definition of an urban place and there was a complete dearth of industry. At the other extreme of our array there will be ample opportunity for off-farm employment and this again will be reflected in the housing. Both Texas areas had some industry to give off-farm employment; the Blackland is on the fringe of a rapidly growing industrial area.

You will notice that in two of our area studies, South Central Kentucky and East Texas, the expenditures of owners on farm housing are less than the national average for all farm housing derived from the Census data--\$150 and \$140 compared with \$165. (See table 2.) We can assume, moreover, that these figures understate the difference between the national average and expenditures on all farm dwellings in our studies since the Census study indicates that owners' expenditures on their dwellings are higher on the average than the combined expenditures of landlords and tenants on renter-occupied dwellings. That spending on farm housing is low in these areas is not surprising. These are low-

income areas and areas of poor housing. Since the housing is poor, we can expect that it would cost less to keep up. What is surprising is the proportion of total expenditures on housing that is going into improvements in these areas.

The Census study found that for the population as a whole about 60 percent of housing expenditures were for repairs and replacements and about 40 percent were for improvements--for work that could be called a capital addition. The study found that this division also applies to farm dwellings. In our area studies, however, we find this proportion about reversed. Looking again at the farm owners, the farm group for which we have total expenses, we find 77 percent of the total going for improvements in the Kentucky area, 67 percent in East Texas, and 57 percent in the Blackland. It is possible that on rented farm dwellings improvements took a smaller proportion of the combined expenditures of landlords and tenants, and it is also possible that there were differences between the Census study and ours in the classification of work as repairs and alterations on the one hand, and improvements on the other, but these factors can hardly depress the proportion of expenditures going into improvements to the national average. We must conclude, therefore, that we have that very satisfactory situation, a higher proportion of expenditures going into improvements in the areas where improvement is needed most.

So far I have been discussing total expenditures on housing and so have had to disregard the expenditures made by renters since these represent only a part of the expenditures on rented dwellings. The Census study, however, also treats the expenditures of renters separately, indicating that they spent an average of \$20 for work on the dwellings, farm and nonfarm, they occupied. In each of our three study areas, the expenditures of farm renters were above this national average. In contrast, expenditures of nonfarm renters were consistently below the national average, particularly in the Kentucky and Blackland areas where the average amounts spent were \$5 and \$3, respectively.

The key to the relatively high expenditures of farm renters probably lies in the amounts they spent on improvements. Expenditures for repairs and replacements were well below \$20. If spending for improvements had shown the same relationship to spending for upkeep in this group as in the nation as a whole, its total spending would have been in line with other renters. But renters' expenditures for improvements formed only a slightly lower proportion of their total expenditures than in the case of owners and were much above the proportion spent nationally. It is possible that renters making sizable expenditures for improvements were on family-owned farms and did so in the expectation that they would acquire title to the farms at some time in the future.

The low expenditures of nonfarm renters in our studies are probably in line with the value of the dwellings they occupy. In all three areas, these dwellings were the poorest of the tenure groups. In the Blackland area many of these dwellings were furnished by employers to farm labor families. It is probable that these families changed employers frequently and so had no incentive to spend money on dwellings they knew to be temporary.

Effect of income on expenditures
on housing

We found in our studies that the amount spent on housing by the family rose very sharply as income increased. (See table 3.) This is true both for owners and for renters, although renters spend much less than owners at comparable income levels.

Among owners, the greatest difference in amounts spent for housing by families in the lower third of the income distribution, roughly speaking, and those in the upper third was in the Kentucky area; there families in the top third spent more than five times as much as those in the low third. Least increase with income occurred in East Texas, spending there in the top third averaging less than 50 percent more than in the low third. Since some of the renter cells are too small to insure stable averages, particularly when relatively few families made expenditures, I will make no comparisons for this group.

Income level affected spending for improvement more than spending for repairs and replacements. Both the proportion of families spending and the average cost of the work done tended to increase, but the increase was greater in expenditures made than in the proportions spending. In East Texas, the average improvement made by owning families in the top third of the income range cost about twice as much as that in the low third, in the Blackland more than three times as much, and in the Kentucky area almost five times as much.

Spending for repairs and replacements showed no consistent relationship to income in our studies. Among owning families, those in the middle of the income range were generally more likely to make such expenditures than those above and below them. Even among owners, the average amount spent for the work done tended to vary rather erratically. Since the range of possible expenditures for repairs and replacements is so great, stable patterns cannot be expected in relatively small studies such as these but might occur in large samples.

The trends noted for the two tenures also hold for the group as a whole. In the three study areas, income had relatively little effect on spending for repairs and replacements but affected spending for improvements sharply. (See chart 1.)

As a result of these diverse relationships to income, improvements tended to take a larger part of the total outlay as income increased. You will remember that the Census study found 40 percent of total expenditures for work on the dwelling going into improvements. This is approximately the proportion used by lower income owner families in our studies, while upper income owner families used from 70 to 80 percent for this purpose.

Effect of age of head on expenditures
on housing

We can also expect the age of the head to affect spending on housing. This will result in part because young and middle-aged families tend to have higher incomes than the elderly. Families' needs will also differ over the course of the marriage cycle; in the early and middle years they must provide shelter for a larger household than in the later years. The age of the family also appears to affect its standard as to housing; younger people seem to be less willing to accept housing without running water and a bathroom, for example, than are older families.

In our studies, we found that the age of the family head does not affect the family's recognition, as indicated by expenditures, of the need to do routine work to keep the house in repair, although it may affect the amount the family spends for the work it does or has done. Within each area and tenure class roughly the same proportion of families in each broad age group spent something for the repair of their dwellings, although there was variation from area to area and between owners and renters. Among owners there was some tendency for the younger families making expenditures to spend less than those in the middle and older years (a tendency not evidenced in the Kentucky area). Among renters, families with heads 60 years of age and over tended to spend least per job.

While the age of the head of the family had little effect on the likelihood that the family would make repairs or replacements, it did influence the likelihood that they would make improvements and the amount they would spend on them. The influence of age of the head was particularly strong among renters. The proportion of families with heads under 40 years of age making improvements tended to be about double the proportion in the group headed by men 40 to 60 years of age, and virtually no families with heads 60 years of age or older made improvements. The costs for the work done also varied with age, the young families spending considerably more. Among owners, the older families were also generally less likely to make improvements, but the families in the middle age range were most likely to do such work. Except in the Blackland area, the middle-aged families also tended to spend the most per job.

Since the tenure distribution differed from age class to age class, the pattern of spending for the combined tenure groups differs from that of either alone. Because owners, the big spenders relatively speaking, were a larger proportion of the oldest group than of the other two, the spending of the oldest group becomes more important in relation to the other two. In the two Texas areas, spending by the oldest group appreciably exceeds the others.

These data on expenditures by age can also be related to the Census study finding as to the proportion that improvements are of housing expenditures. Among owners, there was comparatively little variation between the age classes in this proportion and, this being the case and the proportion for all owners being above the Census proportion, all age classes used more than the 40 percent found in the Census data. The

situation in respect to renters was very different, however. The proportion spent on improvements varied sharply by age, being considerably above the Census figure in the youngest group--69 percent in the Kentucky and Blackland areas and 87 percent in East Texas rather than 40 percent--and approaching or reaching zero in the oldest group.

Differences between areas

Table 2 indicates that the level of spending on housing differed among our three areas, families in the Blackland spending half again as much as families in the Kentucky area. This and the succeeding tables indicate that while differences in income level, age distribution, tenure, and occupation account for some of these differences, they account for by no means all of them, for area-to-area differences are still in evidence when these factors are held constant.

The general level of the community is an important factor in determining how any one family lives. Man in his tendency to emulate his neighbors does not confine himself to the example of his peers. If he did, we would have none of the problems entailed in "keeping up with the Joneses" but neither would we have much improvement in levels of living. Rather, he is influenced by all in his environment, and today the reaches of his environment are broad indeed.

The effect of community level is clear in these data. Measured on the Farm-Operator Family Level-of-Living Index, 5/ the Blackland ranks considerably above the East Texas area, and East Texas in turn ranks somewhat above the Kentucky area. This is the ranking also for the average expenditures of all the study families on housing and comparable groups within the areas tend to fall into this same pattern.

5/ USDA Statistical Bulletin No. 204. As the title indicates, this index is designed to measure the level of living of farm-operator families only but in the absence of a more inclusive index, it is used here to reflect the approximate position of all rural families in the community. The positions of the counties in 1954 against a national average of 140 were:

<u>Northern Blackland,</u> <u>Texas</u>		<u>East Texas</u>		<u>South Central</u> <u>Kentucky</u>	
Collin	142	Smith	113	Barren	109
Grayson	132	Anderson	106	Hart	104
Hunt	125	Nacogdoches	105	Metcalfe	88
Delta	117	Rusk	100	Monroe	88
Fannin	114	Cherokee	93	Cumberland ..	74
Lamar	113				

Who did the work

The Census study provides information on who did the work--family member or paid labor--that sheds supplementary light on the difference between farm and nonfarm spending as reported in that study. For the nation as a whole, a third of the expenditures on single family dwellings were for materials for work which was done without labor cost--"do-it-yourself" jobs. Work done on this basis was principally painting and alterations.

Our studies provide no comparable information and the Census study does not indicate whether farm and nonfarm families spent in the same proportion. It seems probable, however, that even with the increase in "do-it-yourself" work among city and suburban families in recent years, a larger proportion of the work done on farm homes is done by the family. The consequent elimination of labor charges is a factor which, while not as important as the relative value of farm and nonfarm housing, explains why farm families spend less than nonfarm families for the upkeep and improvement of their dwellings.

The outlook

Last year also we presented data on housing from two of the three areas included in this report. ^{6/} That report, of a descriptive nature, indicated the level of housing among low-income families was, on the whole, poor. This year's report indicates that farm families generally and some groups of rural nonfarm families are spending less than the national average, and in low-income areas considerably less. Is the outlook for improvement of rural housing therefore completely gloomy?

By no means. Your attention was called, at the beginning of this paper to two areas, electrification and plumbing, in which great strides have been made in the last few decades and comment was limited to these areas simply because they lend themselves to measurement and therefore, to a concise presentation. We can look for further improvements in the future. Factors discussed in this report will operate to bring this about.

We can expect improvement as we succeed in raising the level of income. As farm families improve their incomes from farming by eliminating under-employment of their human, material and financial resources invested in farming and by getting additional employment off the farm, and as rural nonfarm families have increased opportunity for employment in industry our data indicate they will increase their expenditures on housing. This increase appears to be proportionately large as families move from the low-income to the middle-income group.

We can expect improvement as housing changes hands. A relatively large group in low-income areas and one that spends little on its housing is the elderly. When with the passage of time the dwellings they now occupy are turned over to younger occupants, our data indicate that those new occupants will make improvements.

And finally, we can expect improvement as community horizons broaden, as the farm family becomes familiar with the higher housing standards of its urban neighbors and begins to emulate them.

^{6/} McIntosh, M. B. The Need for Housing Improvements, given before the 38th Annual Outlook Conference, November 16, 1960. This report was limited to a consideration of families having incomes of less than \$2,500.

Table 1.--Selected housing characteristics by urbanization, 1950

Housing characteristics	United States	Urban	Rural nonfarm	Rural farm
Condition:				
Dilapidated .....percent..	9.0	6.4	12.7	17.1
Not dilapidated .....do....	91.0	93.6	87.3	82.9
Age:				
10 years, 3 months or less .....do....	20.7	19.3	28.4	15.3
10 years, 4 months-20 years, 3 months .....do....	13.3	11.6	17.6	14.9
20 years, 4 months-30 years, 3 months .....do....	20.1	22.6	15.0	16.3
30 years, 4 months and over .....do....	45.8	46.4	39.0	53.4
Persons per room:				
0.75 or less .....do....	60.2	61.4	57.9	57.4
0.76-1.00 .....do....	24.1	25.3	22.6	20.3
1.01 or more .....do....	15.7	13.3	19.5	22.3
Median number of rooms .....number..	4.6	4.6	4.5	5.1
Median number of persons .....do....	3.1	3.0	3.1	3.6

Source: U.S. Bureau of the Census. U.S. Census of Housing: 1950.
Vol. I, General Characteristics, Part 1, U.S. Summary.

Table 2.--Average amounts spent for materials and labor for work on the family dwelling,
by residence and tenure, three areas

/Husband-and-wife families living in the open country

Residence and tenure class	South Central Kentucky, 1956-57 <u>1/</u>				East Texas, 1958 <u>2/</u>				Northern Blackland, Texas, 1959 <u>3/</u>			
	Fami- lies	Average expenditures for--			Fami- lies	Average expenditures for--			Fami- lies	Average expenditures for--		
		All work	Repairs and replace- ments	Improve- ments		All work	Repairs and replace- ments	Improve- ments		All work	Repairs and replace- ments	Improve- ments
	Number	Dollars	Dollars	Dollars	Number	Dollars	Dollars	Dollars	Number	Dollars	Dollars	Dollars
All families <u>4/</u>	346	106	29	77	311	111	44	67	345	150	53	97
Farm <u>5/</u>	278	116	28	89	152	119	39	81	247	142	61	81
Owned	203	150	35	115	124	140	45	94	147	216	93	123
Rented	75	25	8	17	28	30	9	21	100	34	16	19
Nonfarm <u>6/</u> ..	68	62	33	29	159	102	48	54	98	169	33	136
Owned	33	123	63	60	111	141	67	74	41	399	76	323
Rented	35	5	4	1	48	13	6	8	57	3	2	1

Note: Detail may not add to totals because of independent rounding.

1/ Barren, Cumberland, Hart, Metcalfe, and Monroe Counties, September 1956-August 1957.

2/ Anderson, Cherokee, Macogdoches, Rusk, and Smith Counties.

3/ Collin, Delta, Fannin, Grayson, Hunt, and Lamar Counties.

4/ Count of families in East Texas and Blackland areas will not agree with counts published elsewhere since families changing tenure during the year have been excluded.

5/ Resident operator dwellings only.

6/ Includes nonoperator dwellings on farms.

Source: Preliminary data from U.S. Department of Agriculture, Agricultural Research Service, Household Economics Research Division.

Table 3.--Average amounts spent for materials and labor for work on the family dwelling by all families and by families making expenditures and percentage of families spending, by tenure and disposable family income, three areas

/Husband-and-wife families living in the open country

Area and income l/ class	Fami- lies	Average expenditures of all families for--				Average expenditures of families making expenditures for--				Families spending for--			
		Repairs and replace- ments		Improve- ments	All work	Repairs and replace- ments		Improve- ments	Any work	Repairs and replace- ments		Improve- ments	
		Dollars	Dollars	Dollars		Dollars	Dollars	Dollars		Percent	Percent	Percent	Percent
Owners													
	Number	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Percent	Percent	Percent	Percent
South Central Kentucky, 1956-57: 2/ Under \$1,500 \$1,500-\$2,499 \$2,500 and over	87	44	28	16	58	39	109	76	71	15			
	72	176	46	129	195	56	333	90	82	39			
	77	233	44	190	295	61	504	79	71	38			
East Texas, 1958: 3/ Under \$1,500 \$1,500-\$3,499 \$3,500 and over	86	117	59	57	209	142	183	56	42	31			
	66	140	53	87	215	100	339	65	53	26			
	80	166	51	115	255	97	382	65	52	30			
Northern Blackland, Texas, 1959: 4/ Under \$1,500 \$1,500-\$3,499 \$3,500 and over	63	141	77	64	222	143	223	63	54	29			
	63	286	117	170	401	179	594	71	65	29			
	62	342	72	269	530	136	726	65	53	37			

See footnotes at end of table.

Table 3.--Average amounts spent for materials and labor for work on the family dwelling by all families and by families making expenditures and percentage of families spending, by tenure and disposable family income, three areas--continued

Area and income 1/ class	Fami- lies	Average expenditures of all families for--			Average expenditures of families making expenditures for--			Families spending for--		
		Repairs and replace- ments		Improve- ments	Repairs and replace- ments		Improve- ments	Repairs and replace- ments		Improve- ments
		All work	Dollars	Dollars	All work	Dollars	Dollars	Any work	Percent	Percent
Renters										
		Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Percent	Percent	Percent
South Central Kentucky, 1956-57: 2/ Under \$1,500 \$1,500-\$2,499 \$2,500 and over	51	13	9	4	42	32	45	31	27	10
	35	11	5	6	40	17	112	29	29	6
	24	41	6	35	82	12	212	50	50	17
	30	11	3	9	43	14	86	27	20	10
East Texas, 1958: 3/ Under \$1,500 \$1,500-\$3,499 \$3,500 and over	28	15	6	9	58	26	125	25	21	7
	16	46	18	28	106	48	228	44	38	12
	60	7	6	1	27	23	21	25	25	5
Northern Blackland, Texas, 1959: 4/ Under \$1,500 \$1,500-\$3,499 \$3,500 and over	65	29	17	11	125	76	187	23	23	6
	31	42	6	37	109	19	377	39	29	10

Note: Detail may not add to totals because of independent rounding.

1/ Net family income after personal taxes. East Texas and Blackland income has been adjusted for change in inventory of crops and livestock and for depreciation on farm machinery; Kentucky income unadjusted.

2/ Barren, Cumberland, Hart, Metcalfe, and Monroe Counties, September 1956-August 1957.

3/ Anderson, Cherokee, Nacogdoches, Rusk, and Smith Counties.

4/ Collin, Delta, Fannin, Grayson, Hunt, and Lamar Counties.

Source: Preliminary data from U.S. Department of Agriculture, Agricultural Research Service, Household Economics Research Division.

Table 4.--Average amounts spent for materials and labor for work on the family dwelling by all families and by families making expenditures and percentage of families spending, by tenure and age of head, three areas

[Husband-and-wife families living in the open country]

Area and age class	Fami- lies	Average expenditures of all families for--				Average expenditures of families making expenditures for--				Families spending for--		
		Repairs and replace- ments		Improve- ments	All work	Repairs and replace- ments		Improve- ments	Any work	Repairs and replace- ments	Improve- ments	
		Dollars	Dollars	Dollars		Dollars	Dollars	Dollars				Percent
Owners												
		Number	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Percent	Percent	Percent
South Central Kentucky, 1956-57: 1/												
	Under 40 years	50	197	40	158	247	57	358	80	70	44	
	40-59 years	105	170	43	127	205	57	444	83	75	29	
60 years and over ...	81	83	32	51	104	42	231	80	75	22		
East Texas, 1958: 2/												
	Under 40 years	37	48	23	25	80	47	154	59	49	16	
	40-59 years	111	157	49	108	242	99	316	65	50	34	
60 years and over ...	87	158	78	80	269	166	278	59	47	29		
Northern Blackland, Texas, 1959: 3/												
	Under 40 years	24	233	54	179	372	107	537	62	50	33	
	40-59 years	90	270	108	162	352	162	406	77	67	40	
60 years and over ...	74	246	77	169	444	159	832	55	49	20		

See footnotes at end of table.

Table 4.--Average amounts spent for materials and labor for work on the family dwelling by all families and by families making expenditures and percentage of families spending, by tenure and age of head, three areas--continued

Area and age class	Fami- lies	Average expenditures of all families for--			Average expenditures of families making expenditures for--			Families spending for--		
		All work	Repairs and replace- ments	Improve- ments	All work	Repairs and replace- ments	Improve- ments	Any work	Repairs and replace- ments	Improve- ments
Renters										
	Number	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Percent	Percent	Percent
South Central Kentucky, 1956-57: 1/	57	32	10	22	80	26	140	40	39	16
	37	4	3	1	16	14	18	27	24	5
	16	4	4	0	11	11	0	31	31	0
East Texas, 1958: 2/	21	39	6	34	104	20	176	38	29	19
	41	14	8	6	51	34	86	27	22	7
	14	7	7	0	32	32	0	21	21	0
Northern Blackland, Texas, 1959: 3/	44	45	14	31	197	77	271	23	18	11
	82	19	11	7	61	39	146	30	29	5
	31	3	3	4/	13	13	2	23	23	3

Note: Detail may not add to totals because of independent rounding.

- 1/ Barren, Cumberland, Hart, Metcalfe, and Monroe Counties, September 1956-August 1957.
- 2/ Anderson, Cherokee, Nacogdoches, Rusk, and Smith Counties.
- 3/ Collin, Delta, Fannin, Grayson, Hunt, and Lamar Counties.
- 4/ \$0.50 or less.

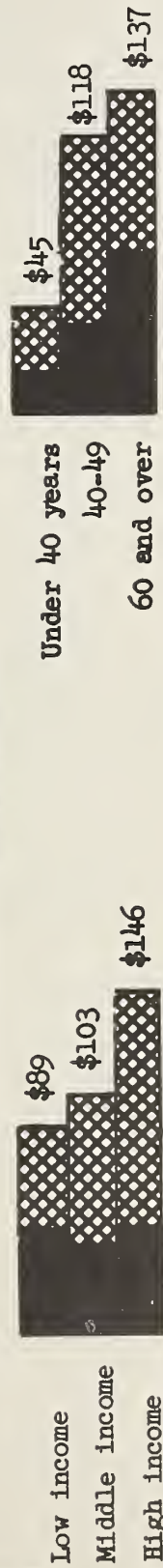
BY INCOME LEVEL

BY AGE OF HEAD

South Central Kentucky 1/



East Texas 2/



Northern Blackland, Texas 3/



Repairs and replacements Improvements

- 1/ Barren, Cumberland, Hart, Metcalfe, and Monroe Counties, September 1956-August 1957.
- 2/ Anderson, Cherokee, Nacogdoches, Rusk, and Smith Counties, 1958.
- 3/ Collin, Delta, Fannin, Grayson, Hunt, and Lamar Counties, 1959.

SPENDING ON RURAL HOUSING BY HUSBAND-WIFE FAMILIES LIVING IN THE OPEN COUNTRY

Source: Preliminary data from U.S. Department of Agriculture, Agricultural Research Service, Household Economics Research Division.



UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

THE STRATEGY OF FOOD AID

Talk by Sherman E. Johnson
Deputy Administrator for Foreign Economics
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., at 10:00 a.m., Tuesday, November 14, 1961

In the topic assigned to me, I interpret "strategy" to mean planning to achieve an objective. The question then arises as to what should be our objective on food aid. My answer would be the use of food and other farm products where they can be effective in promoting economic growth and welfare in the less developed countries.

The agencies concerned are taking a new look at our foreign aid programs. We seem to have learned that aid granted on a year-to-year basis for isolated projects has not been very effective in helping the receiving countries to achieve self-sustaining economies. We now recognize that effective aid must be fitted into a plan for economic development which, if carried out over a period of years, will enable the receiving country to increase production and income sufficiently to balance its imports with exports of goods and services.

If the conditions for economic growth are favorable in the receiving country, including capable leadership and political stability, aid programs can be devoted to removal of key obstacles to achievement of a plan of development.

Does food aid fit into an integrated program of assistance to achieve national economic development? I believe it does, because a food shortage can be an effective barrier to economic growth. I know of no country that has made rapid progress while faced with serious food shortages. Plentiful food supplies are essential for high worker productivity and low cost industrial production.

In order to bring out the importance of food, let us trace the course of events in the early stages of economic development. Suppose a densely populated and underdeveloped country decides to make a large investment in new industrial plants, and at the same time improve its system of transportation and communication. The construction phase of such development creates additional employment and increased purchasing power of workers. A high percentage of the increased income of workers will be spent for food, and if larger food supplies are not available, the rising prices of food will generate an inflationary spiral that will retard economic development.

India experienced such a sequence of events in 1958-59. Apparently, somewhat similar situations have developed in Iran and Indonesia.

More food can be obtained either from increased domestic production or from imports. But domestic production is not likely to respond fast enough to meet the need, and commercial imports are limited because of the scarcity of foreign exchange. The available foreign exchange is needed to import equipment for plant construction. Under such conditions food aid has a unique place in an integrated program to accelerate economic growth. Title I, P.L. 480 programs can meet this need.

The P.L. 480 wheat and rice shipped to India enabled the government to build up food stocks which resulted in more stable prices, discouraged hoarding and speculation, and permitted free movement of wheat from state to state. Anyone who traveled in India in 1959 became familiar with the inspection barriers on roadways leading from one state to another that were designed to prevent bootlegging of food grains.

If we as a nation recognize the desirability of providing economic and technical assistance to the less developed nations, we should consider effective use of food as well as other forms of aid.

But why are we interested in the economic development of these countries? I would say, first of all, because we are a part of the free world community. With the present means of rapid transportation and communication, the free world is necessarily interdependent. In 1858, Abraham Lincoln said he believed that "this government cannot endure permanently half slave and half free." It is my personal belief that the free world as we know it, cannot endure permanently with three-fifths of the world hungry and two-fifths well fed, even overfed. We discipline our children because they do not eat their dinners; but three-fifths of the world's children go to bed hungry. Freedom from hunger is a prerequisite to enjoyment of other freedoms. I recognize that some people in this country doubt the seriousness of the food shortage in underdeveloped countries, but to convince them I would recommend visits to rural villages in some of these countries.

With radio programs coming into remote villages, and with jet airplanes in the sky, the hungry people of the world know that other people live better than they do. They are being told every day that they too can achieve abundance if they will only follow the Communist methods of development. This promise appeals to people who at present have no opportunity of bettering their conditions. Food aid can provide some immediate improvement if the governments of receiving countries are willing and able to use it for this purpose. But more important, it can help build a foundation for permanent improvement of income and welfare.

The second reason for our interest in economic development is our concern for the long-term welfare of American farmers. It is now clearly evident that with average weather our food production capacity will exceed our prospective domestic and foreign commercial markets for many years to come. We are, therefore, interested in future markets for farm products. If food and fiber can effectively contribute to economic development that will result in building self-sustaining economies in the presently underdeveloped nations, total trade will increase. Eventually, this is likely to result in larger commercial markets for our farm products.

The foreign market is important to U. S. agriculture. About 60 million acres of our harvested cropland in 1959 and 1960, were used to produce commodities for export. In fiscal year 1960-61, we exported 57 percent of our rice production, 49 percent of our wheat and cotton, and 41 percent of our soybeans. The Government-financed programs (largely P.L. 480) accounted for nearly one-third of the exports in 1960-61. This is equivalent to 18 to 20 million acres of harvested cropland.

If by providing food and other aid for accelerated economic development we could eventually convert this portion of our exports into a commercial market for farm products, it would constitute a significant step toward providing larger commercial outlets for U. S. farm products.

Is this a realizable goal or an idle dream? Perhaps we can get some clues as to potentialities by examining the trends in Italy and Japan. These two countries received considerable foreign aid for rehabilitation and economic development, especially in the early postwar years. Both countries, of course, had made considerable progress in economic development before World War II. But they suffered serious wartime devastation, and had to face the difficult task of recovery to prewar levels of production.

In Italy, both exports and imports of all products more than doubled from 1953 to 1960. The value of imports of agricultural products in 1959 was 20 percent above 1953 despite declining prices. Domestic production of farm products increased about 20 percent in the same period.

In fiscal year 1955-56, about 75 percent of U. S. exports of agricultural products to Italy were government-financed food and fiber, whereas in 1959-60 only 23 percent of our exports were shipped under government-financed programs.

In Japan, total exports tripled in volume from 1953 to 1960, and imports nearly doubled. The value of imports of agricultural products increased 23 percent from 1953 to 1960. Domestic production of farm products increased 44 percent in the same period.

In fiscal year 1955-56, about 33 percent of U. S. exports of agricultural products to Japan were government-financed food and fiber aid, whereas in 1959-60 only 4 percent were shipped under aid programs.

Although the analogy between trends in Italy and Japan and the countries now receiving the bulk of our food aid must not be pushed too far, the postwar developments in these countries strongly support the thesis that if economic growth can be accelerated, foreign trade will increase, and imports of farm products will increase along with expansion of domestic production. Under such conditions, the U. S. Government-financed food and fiber exports can be gradually converted to commercial exports. This transition, however, assumes our acceptance of other goods in exchange for food and fiber.

To me, the evidence points strongly in the direction of favoring a program of "food for economic development." First, because it is in line with our responsibility as part of the free world community; and second, because of the potentiality of developing future commercial markets for our farm products.

If we take this approach to food aid, it will involve a basic shift in public understanding of the reasons for P.L. 480 type food and fiber programs--a shift from regarding them as temporary surplus disposal operations, to a program of "food for economic development" in the broad setting of helping underdeveloped countries to achieve self-sustaining economies.

The receiving countries also will need to change their attitudes toward food aid. In some countries, there is an inclination to regard acceptance of food aid as a favor to the United States. We have promoted this attitude by continuously harping on our surplus problem. True, our production capacity in agriculture is much greater than our immediate prospects for commercial markets. But we are using U. S. labor, land, and capital resources to provide food aid. These resources are not costless. From a strictly domestic standpoint, it might be more desirable to place more of our land resources in a contingency reserve than to use them for current food production.

Although putting more of our land resources in a contingency reserve might be more desirable from a domestic self-interest point of view, I regard food for economic development as a gamble well worth taking in the interest of long-term commercial markets for American agriculture. For this reason then, as well as for promotion of world peace and progress, we should be willing to use our food and fiber along with other resources to help underdeveloped countries that are willing to plan and to carry out integrated programs to achieve self-sustaining economies. But we cannot and should not attempt to use food and other government aid to help nations whose government authorities are not willing to develop programs that will enable their own people to increase their output and incomes, and to build educational, political, and economic institutions that enable them to participate in the free world community.

Effective use of food as an integral part of economic and institutional development involves more than simple acceptance of food aid to supplement commercial imports in order to save foreign exchange. Additional food should be distributed in the areas of greatest need, and where it will maximize economic growth and welfare. Specific provisions will need to be made for receiving, storing, transporting, and distributing food aid. Present facilities usually are inadequate, and new construction will be required.

In the United States, a program of food for economic development involves commitments for 5 to 10 years, depending upon conditions in each country where aid is extended. This will mean budgeting for assured supplies from current production when excess stocks are liquidated. Food aid then will be included as a part of the prospective outlet for farm products in our economic projections for the years ahead.

We should consider food aid as a means of breaking the food barrier to economic progress. This requires a broad approach to food needs. Relief feeding in an emergency is certainly a prerequisite to economic development, but prevention of acute hunger is not enough. Workers must have sufficient food for sustained effort on development projects. And food enough can prevent debilitating diseases that greatly reduce worker productivity. If children are adequately fed and provided with educational facilities, they can receive training in technical and management skills that will provide an intelligent work force for future development. We tend to forget how soon the children now in school can become a part of the trained corps of workers so badly needed to man the new enterprises. In this setting, I would include in a food-for-development program, emergency feeding, school lunches, food for public works programs in both rural and urban areas, and food necessary for resettlement of population from overcrowded areas.

Because of the rapid growth of population, from 2.5 to 3 percent a year in most underdeveloped countries, even herculean efforts at increasing domestic food production are not likely to achieve self-sufficiency in many countries. Domestic expansion of food production may provide maintenance of present levels of consumption for the growing population, but increased food demands resulting from economic development will have to be met in other ways. Consequently, we should not fear a conflict between extending technical and other aid to increase food production in the receiving countries, and our future markets for farm products. In fact, we should provide technical and other aids to help farmers in these countries improve their technology in order to increase their production and incomes. The experience in Italy and Japan indicates that if other resources are available, including a trained labor force, economic growth can provide markets for increased domestic production as well as for larger imports of farm products.

We also need to overcome the objection that food aid only adds to the surplus population in underdeveloped countries. Retardation of population growth is urgently needed in most of these countries, but semi-starvation is not an effective method of limiting increases in population. And no freedom-loving country can permit its people to starve for want of food. Therefore, the population aspects of economic development involve programs different from those designed to provide more adequate food supplies.

Perhaps you are beginning to wonder about the relation of food aid to the agricultural outlook. Well, our present food aid programs are providing outlets for the output from 20 million acres of harvested cropland. If we attempted to dispose of these products on the commercial markets, prices would be demoralized. The other alternative, of course, is to not produce them. This would mean bigger and better supply control programs, or shrinkage of output by chronic low prices, and bankruptcy of many farmers. I am optimistic enough to believe that, if it became necessary, programs could be devised to guide withdrawal of

sufficient farm resources from production to balance our output with prospective outlets (excluding our food aid exports). Consequently, I believe that we do have other alternatives if we cannot use food and fiber effectively in integrated international aid programs. But I am more of an optimist on the prospect of gradually converting food for economic development into commercial markets for farm products. Therefore, I look upon effective food aid as a part of a long-term market development program. And I am deeply impressed with our responsibility as a part of the free world community. We must do our part to remove the food barrier to economic progress.

* * *

UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

WHAT'S NEW IN AGRICULTURAL EXPORTS?

Talk by Raymond A. Ioanes
Deputy Administrator

at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 2:45 P. M., Monday, November 13, 1961

Any adequate answer to the question "What's new in agricultural exports?" calls for an appraisal of the foreign situation as well as the American response to it. Economic and political forces overseas affect our agricultural exports favorably or unfavorably. Our export policies and programs, in the final analysis, must be designed to take advantage of or cope with, as the case might be, the foreign situation that exists.

The foreign keynote is change. Old questions are being considered in new contexts. Established institutions are being challenged and replaced. These overseas developments inevitably are influencing U.S. trade.

A general trend toward economic growth in the world is enhancing demand for U.S. food and fiber. At the same time, agricultural protectionism is offsetting to some extent the full potential of economic progress. This collision of forces, as I shall make clear later on, is especially apparent in the European Common Market. Political trends overseas continue to be felt elsewhere. Cuba's drift into the orbit of the Soviet Bloc has diminished trade between that country and the United States. On the other hand, the desire of the United States to use food as an instrument of foreign policy against communism has increased agricultural trade--on a nondollar basis--with many other Latin American countries.

Agricultural export policies and programs must be tailored to the existing foreign situation. We make our strongest market development efforts in the economically advanced countries that can buy from us for cash. That's good American business practice. If trade restrictions persist, we step up our efforts to gain greater access to the protected markets. For the countries lacking dollar purchasing power, we are continuing with such special programs as sales for foreign currencies, barter, credit sales, and donations.

International Developments

Starting off with economic growth, I want to review with you today some of the international developments that are affecting U.S. agricultural exports. Later, I will discuss U.S. responses, policywise and programwise, to the foreign stimuli.

Economic growth: Export data are indicative of the tempo of economic activity and in a rough sense reflect economic development. Export figures compiled by the International Monetary Fund indicate that the world as a whole is in a period of economic development. World exports increased from an f.o.b. value of \$96.1 billion in 1958 to \$113.4 billion in 1960. That's an increase of 18 percent. And world exports in the first quarter of 1961 were running at an annual rate of \$115.0 billion, which, if realized for the full year, would mean an increase of close to 20 percent over 1958.

There are abundant signs that economic growth will continue. The Common Market has become a major factor in the business prosperity of Western Europe. Enlargement of this free trade area with admission of the United Kingdom and Denmark as full members, plus membership or association of other Western European countries, are distinct possibilities. Economic development also is moving forward in Asia, Africa, and Latin America, much of it made possible by U.S. contributions of cash, commodities, and services. The Latin American countries are hopeful that the volume of outside assistance, much of it from the United States, can be boosted to \$20 billion in the next few years under the Alliance for Progress program. New international institutions for financing development south of the border--the Inter-American Development Association and the Inter-American Development Bank--have been organized and funded in the last two years and today are active going concerns.

Development creates, of course, an economic "climate" favorable to trade, including exports of U.S. farm products. We obviously can make substantial earnings of dollars or of other currencies readily convertible to dollars. Economic development in many countries of the world must precede dollar trade.

Although their long-range prospects are favorable, a great many countries of the world are far from reaching the point where their economies will be self-sustaining. U.S. agricultural exports to these less-developed countries must continue to be carried on under special programs--concessional sales, barter, dollar credit, and grants. Perhaps our imports from such areas will need to be carried out under new types of stabilizing agreements.

International commodity agreements, to the extent that they stabilize prices, can help to strengthen the economies of underdeveloped countries that depend primarily on agricultural exports as a means of generating foreign exchange. At the recent Alliance for Progress Conference in Uruguay, the United States indicated a willingness to help develop and participate in an international coffee agreement. The United States uses over half of the world's annual coffee exports of \$2 billion. Today, work is being carried on with a Coffee Study Group to develop a long-term agreement between coffee producing and importing countries.

The United States also recognizes the serious impacts of fluctuating prices for other commodities. For example, prices of cocoa have declined sharply because of successive bumper crops. World exports of cocoa and cocoa products have averaged a half billion dollars annually in recent years. The

United States, which takes a third of this, is joining other friendly countries in studies looking into the possible need for a cocoa agreement.

Agricultural protectionism: I am sorry to say that economic development, though an essential ingredient to dollar trade, does not automatically guarantee U.S. farmers dollar export markets. Far from it. Most of the well-heeled, developed countries of the world indulge in agricultural protectionism of one kind or another. The trade barriers erected by the "dollar" countries take many forms--variable tariffs, quotas, embargoes, and the like. They all tend to keep U.S. food and fiber from competing on a fair basis in potentially lucrative cash markets.

It has been disappointing to find that customs unions, like individual countries, also seem to be traveling the protectionist route. It is disappointing because the United States has given strong support to the formation of customs unions. It has seemed to the United States--and still does--that regional integration will strengthen the Free World on an overall basis.

The general idea of integration is to eliminate tariffs and other barriers to trade within the area, to permit the free movement of labor and capital, and otherwise to assure the same kind of commercial activity that would be carried on if the member countries were states of a bigger nation. Integration actually has contributed to higher levels of economic activity and rising standards of living. This has been in line with American expectations and hopes.

However, the United States also has expected that all segments of the American economy would participate in the increasing prosperity growing out of regional integration. That is one of the principal premises on which U.S. support and encouragement of customs unions has been based. Although many of the bright expectations of the United States have been realized, the agricultural side of the picture is not bright at the present time. Protectionism is in the air.

Protectionist plans of the European Economic Community--the Common Market--are of particular interest to U.S. farmers. The Common Market area is a densely populated, highly developed industrial complex made up, at present, of six countries--France, West Germany, Italy, Belgium, Netherlands, and Luxembourg. It is the world's leading importer of agricultural commodities. In 1960, U.S. farm product exports to the Common Market had a value of \$1.1 billion.

The Common Market is a dynamic, going concern. It unquestionably will expand. The United Kingdom, Ireland, and Denmark already have announced their intention of seeking full membership in this customs union. It seems likely that other Western European countries will also seek membership or association. The Common Market could eventually include countries which are now aggregate customers for well over \$2 billion worth of U.S. farm products.

Essential to the formation of a Common Market in Europe, of course, has been the development of a common agricultural policy. It is this phase of the integration movement which most directly concerns our future trade in agricultural commodities. The agricultural programs and policies of the six individual countries making up the Common Market are widely divergent in form and content--some highly protectionist, others less so. But all recognize the importance of income support for farmers. In the nearly four years since the Common Market came into being, only limited progress has been made in developing a common agricultural policy. It promises to be a long, complicated, and controversial process. Up to now, the Common Market has been preoccupied with devising ways of administering policy, rather than agreeing on a common level of protection.

However, protection proposals have emerged. And they are disturbing, to say the least. Under them, a number of important U.S. farm products would be subject to protective devices of one type or another.

For example, variable import levies would be used to make up the difference between a fixed target price for domestic production and the world market price for wheat, rice, feed grains, sugar, and certain livestock, poultry, and dairy products. Another way to describe the variable import levy might be to call it an "equalization fee." Whatever you call it, let me be very blunt about its effect: It will restrict U.S. agricultural exports to the Common Market area--the largest single dollar market for U.S. farm products.

That's not all. In the case of some commodities for which fixed tariffs are proposed, special market regulations, preferences for overseas or associated territories, and quantitative emergency restrictions are planned. Tariffs on some other products would be at much higher levels than at present.

All these plans can only be described as trade restrictive rather than trade expansive. They would serve to insulate the domestic agriculture of the Common Market area from the competition of international trade. They would recognize self-sufficiency as a goal. Because they do these things, the current protectionist plans of the Common Market are viewed by the United States Government as not being in harmony with the principles set forth in the General Agreement on Tariffs and Trade--an agreement to which the individual Common Market countries and the United States are signatory.

U.S. Agricultural Export Programs and Policies

As I said earlier, U.S. export programs and policies are tailored to various foreign economic forces. I want to turn now to some of those programs and policies--the response to economic development, agricultural protectionism, and other overseas events, transitory and continuing.

Cooperative Market Promotion: Prosperity in many countries of the world has created a favorable export climate for U.S. agricultural exports. To take advantage of opportunities, we are carrying on in the "dollar" countries a positive, hard-hitting program of agricultural market promotion. This work is a joint effort of more than 40 agricultural and trade groups, which work with the Foreign Agricultural Service. Promotion activities are in operation in more than 50 countries. Part of the work is financed with foreign currencies generated under Public Law 480 activities, but cooperating groups also contribute to the cause. Virtually all U.S. commodities available for export sales are represented in this program.

Principal program guidelines are these:

1. Export promotion is a trade responsibility; the role of government is assistance and guidance.
2. Wherever possible, work is undertaken through U.S. trade and agricultural groups.
3. Trade cooperators should be nonprofit, nation-wide organizations.
4. Cooperating trade groups should assume an increasing portion of program costs as results are obtained, particularly in hard-currency countries.

A task force composed of industry and government representatives was established in March of this year to review market development operations. A number of recommendations were put forward, all of which either have been or are in the process of being implemented to strengthen the program. These include requests to Congress for increased funds for fiscal 1963 and authority to enter into 5-year project agreements with trade groups, as well as streamlining administrative procedures.

Exhibits of U.S. food and agricultural products overseas have helped to expand dollar sales. To date almost 100 market promotion exhibits in 22 different countries have reached more than 40 million people.

This month we are staging, in Hamburg, Germany, our first "solo" show abroad. This is a large, prestige-type exhibit, held independently of any other special event.. It is a United States effort dealing exclusively with United States food and agricultural products. In contrast with previous shows, which had been sponsored only by the Foreign Agricultural Service, and trade groups, the Hamburg exhibit will feature commercial exhibitors, who have rented spaces. A total of 54 spaces were sold to firms operating order-taking displays. If this step proves successful, it will be repeated at future exhibits.

Last summer the Department of Agriculture and the Department of Commerce cooperated in the opening of the first U.S. Trade Center--in London. There

we are maintaining full-time offices devoted to servicing trade activities between British importers and U.S. exporters. The first exhibit of food products in September brought the participation of 116 U.S. firms. More than 1,500 registered buyers attended the show and engaged in talks and demonstrations by British representatives of the U.S. firms. We expect to compile next month a roundup of new business transacted as a result of this effort. Meanwhile plans are proceeding for the opening of a second Trade Center office in Tokyo next spring.

Wheat Quality: Determined steps are being taken to improve the quality of U.S. wheat available for export. Much of this effort is being built around the Zeleny Sedimentation Test. The sedimentation test, briefly, is a simple, rapid method of estimating the bread-baking strength of wheat.

The Department has announced a premium schedule under its 1962 wheat price support program based on this sedimentation test. In other words, wheat farmers who grow the kind of grain that our own bakers and the world's bakers need for bread-making will get a support price in line with the high quality of their grain. These steps to improve the baking quality of flour made from U.S. wheat should help us maintain and expand our export markets.

The quality of other commodities sold in export channels is receiving attention. This is most important work. Many of our competitors concentrate on producing primarily for the export market. As a result, they are "export-quality conscious." We must develop the same awareness of what foreign consumers want if we are to compete successfully in world markets.

We are making headway in "cracking" the dollar markets of the world. In the fiscal year 1961, sales of U.S. farm products for dollars had a value of \$3.4 billion--equal to the record. That figure of \$3.4 billion represented about 70 percent of the total value of all U.S. agricultural exports in the 12-month period.

Special Government Programs: What has been the U.S. response to the lack of economic development--to the dearth of dollar purchasing power in Asian, African, and Latin American countries?

The response has been government-sponsored and financed export operations under Public Law 480. These programs, sales for foreign currencies, barter, credit sales for dollars, and outright donations are well-established and need little explanation. Taken together, they pretty largely represent the Food for Peace program. In the fiscal year 1961, the value of agricultural exports under government programs was \$1.5 billion--30 percent of the farm product export total.

Public Law 480 has been extended through December 31, 1964. The extension provides Title I authorization--sales for foreign currencies--of \$4.5 billion in terms of reimbursement to the Commodity Credit Corporation, with a

maximum of \$2.5 billion in agreements which may be entered into during any calendar year. The extension provides Title II authorization--commodity grants--of \$300 million annually, plus any carryover for calendar years 1962 through 1964.

The second-largest agreement ever negotiated under Public Law 480 was announced in October--an agreement with Pakistan to finance the sale of \$621,550,000 worth of agricultural commodities to that country over a 4-year period. The commodities, mainly wheat and vegetable oils, will be paid for in Pakistani rupees, most of which will be granted or loaned to Pakistan for financing economic development in that country. The largest P.L. 480 agreement, involving \$1.3 billion was concluded with India in May 1960.

The first Title IV, Public Law 480 agreement was signed in August. The agreement, with El Salvador, covers wheat and wheat flour. Other agreements are in process on cotton and other farm products. Title IV provides for long-term dollar credit exports of surplus agricultural commodities. Objectives are (1) to use U.S. surplus farm products to promote economic development in the purchasing country through the extension of credit, and (2) the maintenance or expansion of agricultural exports for dollars. The credit period is determined on an individual country-by-country basis, with a maximum of 20 years. Payment for commodities delivered in each calendar year, together with ocean freight, is required to be made in dollars, with interest, in approximately equal annual amounts.

There is a growing feeling that the great food-producing capacity of the United States can be used with increased effectiveness in meeting world food needs. Today there is a disposition to place increased emphasis on nutritional requirements of needy people and somewhat less stress on the existence of surpluses. In line with this policy, the United States made 100 million pounds of vegetable oil available for overseas feeding in 1961, and has announced that an additional 400 million pounds will be provided in 1962. A study by the Department's Economic Research Service, "The World Food Budget," is helping to pinpoint the areas of greatest food needs in terms of nutritional requirements.

The effectiveness of an international approach in the field of agricultural production has been demonstrated by the Food and Agriculture Organization, the Colombo Plan, and the Inter-American Institute of Agricultural Sciences. This fall, the Food and Agriculture Organization with United States encouragement is exploring, a program for starting multilateral distribution of commodities. The objective is to improve and increase the utilization of available supplies with contributions of commodities, funds, and services to an international operation.

A multilateral approach could well encourage other surplus-producing countries to share their abundance in the interests of helping the world's needy. The United States alone cannot feed the world, that is certain. If all of our widely publicized food stockpiles were made available to people with inadequate diets, they would not close the nutritional gap for even one year.

Trade Liberalization: As I mentioned earlier, agricultural protectionism is a fact of life in international trade relations. The United States response to protectionism has been, of course, consistent pressure. U.S. agricultural trade is carried on with friendly countries, which have many commercial dealings with us outside the agricultural area. Therefore, the entire trade picture is involved, not just the agricultural side of the picture. But the agricultural side has been presented, you may be sure.

It is U.S. trade policy to encourage expanded world trade on a multilateral nondiscriminatory basis, at moderate levels of tariffs, principally through the operation of the Reciprocal Trade Agreements Program. Under this program, the United States has joined with 39 other nations in a General Agreement on Tariffs and Trade (GATT). These nations, in the aggregate, account for over 80 percent of the international trade of the world. The purpose of the GATT is to reduce trade barriers so as to stimulate expanded international trade.

Over the years, the participating countries have on four occasions negotiated multilateral, reciprocal tariff concessions. At the moment the United States is participating in the fifth general tariff conference at Geneva. At these meetings there is broad discussion of mutual trade problems. The United States uses this forum to press for liberalization--that is, for relaxation, elimination, or removal of non-tariff trade barriers erected against industrial and agricultural commodities. The residue of non-tariff import restrictions still in force affects principally agricultural commodities; and, consequently, attention within the U.S. Government, as well as within the GATT forum, has been focused on liberalizing trade in the agriculture sector. Much progress has been made; considerable progress is still needed.

In 1961 a number of commodities have been given greater access to some markets. These commodities include canned fruit, fresh citrus fruit, poultry, certain cheeses, vegetable oils, lard, canned beef and meat sausage, corn, oats, rye, and certain grass seeds. This is progress, certainly, but much more remains to be done. Many major restrictions remain. These we must continue to attack. We will do it through formal diplomatic representations; participation in international meetings, such as those held under auspices of GATT; meetings with Common Market officials; and other contacts.

I have mentioned the concern with which the United States views some of the agricultural protectionist plans of the Common Market. In this connection, Secretary Freeman said recently in Brussels, "capital" of the Common Market, "American agriculture is concerned over the possibility of a restrictive import policy on the part of the Common Market which would reduce our sales to the area of wheat, rice, feed grains, livestock products, poultry, tobacco, certain fruit items, and possible others. We believe these proposals to be contrary to the trade-expansive spirit of the General Agreement on Tariffs and Trade to which the European community has subscribed."

Mr. Freeman said further, "The United States is doing its best to pursue a liberal policy of agricultural trade, in consonance with the spirit of GATT. We ask no more than access to markets under fair and reasonable competition as between imports and domestic production."

These views have been made known to Common Market officials through the tariff negotiations in Geneva, and through usual diplomatic channels. The results of the tariff negotiations remain to be seen. We shall continue to press our claim for access to European markets for our farm products under reasonable conditions. In this, we seek no more than equal treatment from our trading partners in the world.

In Conclusion

There is a temptation to list all the causes and effects, all the actions and reactions, that make the agricultural export field such a fascinating area.

The Cold War influences trade.

Cuba's alignment with the Soviet Bloc has meant at least the temporary loss of over a third of our rice exports and better than a fourth of our overseas lard shipments. Simultaneously, we have had to look to other countries for the 3 million tons of sugar that Cuba used to supply us.

Declines in crop production in Communist China has meant the purchase by the Red regime in 1960-61, of over 100 million bushels of grain on short-term credit arrangements, mainly from Canada and Australia. About 270 million additional bushels of grain will move to Communist China in the months that lie ahead. We are affected by these deals, even though we haven't furnished a bushel of grain ourselves. The shipments represent a "drawdown" on world grain stocks, which is felt in world markets.

What happens in world markets affects our pricing policies. If we are to sell, we must stay competitive with world price levels. Our high productive efficiency keeps us competitive on a wide range of products. For some domestically price-supported commodities, however, export payments are required.

The far-flung nature of the world market increases the need for "agricultural intelligence." This is being provided through information collected by agricultural attaches in 56 posts throughout the world, as well as by analyses and travels of area and commodity specialists.

As you can see, our export programs and policies reflect the overseas situation. We can't just say, "We are going to export." We must take advantage of opportunities that appear. We must cope with problems that arise.

We needn't fear problems. As time goes by, we are learning not only to recognize problems but also to anticipate them.

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World Economic Situation and Outlook

Speech by W. Michael Blumenthal
Deputy Assistant Secretary of State
at the 39th Annual
Agricultural Outlook Conference
Washington, D. C.
2:00 p.m., November 13, 1961

I greatly appreciate having been invited, and I am honored, to participate in your meeting this afternoon and to give you a survey of the "World Economic Situation and Outlook." To say that this is a rather formidable task to accomplish in 45 minutes would be indulging in understatement, to put it mildly. This subject is, of course, as broad as the world is wide, and to cover it thoroughly and systematically would keep us here for quite some time. I hope you will bear with me, therefore, if I take the liberty of a certain amount of simplification and selectivity. To begin with, perhaps a few very broad-brush generalizations about the situation and outlook in certain major areas of the world are in order. We can then dwell at somewhat greater length on those major developments on the international economic scene which currently occupy much of our thinking. Some are of major significance to the United States and will be of interest to this conference because of their bearing on the formation of United States foreign economic policy generally and the impact which they may have on the shape of our future domestic farm policies as well.

Beginning our broad survey with the advanced industrial countries of continental Western Europe, we have recently seen their very strong trends of economic expansion. In France, Germany, Italy and the other major countries of that area general economic activity has been at a high rate; and unemployment there, in contrast with the situation in the United States, has been very low. Over the period 1953-1960 the average annual growth of the national product for free continental Europe as a whole was over 5 percent. These conditions are likely to continue. Indeed, the great potential of the European Common Market, about which I will have more to say in a few minutes, is going to be a powerful, constructive force and will give considerable impetus to further growth and development. As you know, discussions are now under way between the United Kingdom and the six Common Market countries, which may well lead to an association of the United Kingdom with the EEC. The economic significance of such a move for Europe, and indeed for us and our other non-European friends, cannot be over-emphasized.

In Asia, Japan is, of course, the major industrial country, and it is remarkable to observe the extraordinary pace at which the Japanese have been moving forward economically in recent years. Over the period 1953-1960 the average annual growth of their national product was approximately 7 percent. Here, too, we expect the trend to continue, although perhaps at a somewhat slower pace. Here, too, there are some major challenges and opportunities for the United States and the free world foreign economic policy, for in Japan much will depend on whether the channels of international trade will be sufficiently open to her to provide the export opportunities that must be found if the Japanese are to be able to continue their economic growth.

As regards the less-developed areas of the world, there are, first of all, in Latin America many countries capable of a rapid expansion of economic

activity, in agriculture as well as in manufacturing. But attainment of these goals is by no means inevitable or automatic and faces all of the formidable obstacles to economic development and growth with which we are becoming only too familiar. What is significant in the economic outlook for Latin America, however, is that these problems are being tackled with more and more vigor and success. The Alliance for Progress, embodied in the Charter which the United States and 19 other American countries signed at Punta del Este last August, whereby we have pledged our support with economic assistance (more than \$1 billion this year) and technical aid of substantial magnitude, will no doubt play a major role in this regard. We hope and expect that the "Alianza para el progreso" will be a powerful stimulant to the economic development of the area. That program stresses the importance of developmental planning and basic internal reforms as well as the need for adequate capital from internal and external sources. The emphasis is on cooperation and self-help and many countries are now pursuing these goals energetically. We must recognize that, as the results of the Alianza become evident, they will vitally affect trading patterns between ourselves and Latin America and set in motion significant changes in the relationships of the developing Latin American economies with the rest of the world.

Economic development is also beginning in much of Africa but the needs of that continent are so enormous that the failure of the rate of growth to match the expectations of newly independent peoples may add to existing political problems. The huge task of economic development has barely been started, but Africa is another area where the outlook is for economic change and growth.

There are, of course, still many other important areas of the world which are on the threshold of development and actively pursuing new goals. Much could be said, for example, about India and her efforts to implement her third five-year plan or about the challenges and problems in other parts of Southern and Eastern Asia.

To round out our quick survey perhaps a word or two should be said about the Communist countries. There, too, the outlook is for changes and new challenges. Taking the USSR first, the over-all rate of growth in national product in recent years, according to our estimates, has been high (around $6\frac{1}{2}$ percent) owing mainly to very rapid advances in industry. But there have been major problems in two areas - housing and agriculture. Housing construction fell behind its targets by 18 percent in 1960 and by 25 percent in the first nine months of 1961. With urbanization growing by leaps and bounds, it will take decades to create minimum standards of decent housing.

In agriculture, the Soviet leaders themselves have made no secret of the fact that progress has been slow and insufficient. During the past three years in particular agricultural output has increased little. Field crops have been disappointing. Soviet meat output was to catch up with the United States in the current year at the latest; actually it is not yet half as large. Some one has commented that Soviet agriculture is proficient mainly in one branch, the production of scapegoats. The actual causes, apart from weather, are the lack of adequate incentives under the prevailing institutions of socialized agriculture and inadequate inputs of machinery and fertilizer. Agriculture, in fact, is one area in which the Communist still have much to learn.

Eastern Europe's economic performance has been rather similar to that of the USSR. Industrial expansion has been fast, agricultural growth has for the most part been poor, and the causes are essentially the same. The result has been food rationing on a spot basis in Czechoslovakia, Rumania, and Hungary, and more intense shortages recently in Eastern Germany, where they have led to open grumbling and added to the general discontent.

In Communist China the state of agriculture has been a major calamity, with serious repercussions on the economy as a whole. In 1961 Communist China has had its third successive year of poor harvests. The shortfalls have been caused by a combination of adverse weather and mismanagement of the whole economy within the framework of an unworkable communal system. Food production seems to have increased little since 1958, during which time the population of mainland China has grown by possibly 40 to 50 million. As a result, the peiping regime has been forced to spend about \$350 million for imports of food grain from the free world in 1961 and forced to cancel its previously substantial exports of food. These developments have indirectly compelled Communist China to reduce drastically its imports of industrial goods and equipment, with the result that little industrial expansion could occur. In fact, industrial output this year on the whole, will be no greater than in 1960 and may well be less.

With this quick tour d'horizon as a background, I would now like to turn to some specific matters where the present and the foreseeable future confront the United States and the free world with challenges of the most far-reaching significance. They are the aspects of our foreign economic and commercial policy which occupy much of our thinking and efforts these days.

The first, of course, relates to the economic development of Latin America, Africa, and Asia. Here is perhaps the major phenomenon of our lives --the surging upward movement of the world's less-developed regions. Let us realize clearly that how we react to this challenge may, in large measure, determine the course of history for decades to come.

Two billion people live in the so-called less-developed areas of the world today, and the number is increasing at an explosive rate. Of two hundred children born every minute throughout the world, two-thirds or more see the light of day in the lessdeveloped regions. These peoples are firmly determined that the miserable condidions of life which their ancestors endured must be ended. The fight for political independence was one thing. Now they are demanding another kind of independence: the freedom from want and the access to the basic material requirements of life. Indeed, they are asking for even more. They do not see why they should be denied much longer at least a minimum of those other material comforts to which we in the more advanced societies have long been accustomed. They want proper medical facilities, education for their children, and opportunities for personal development. The challenge which confronts the free world is to help them achieve these goals within the framework of free societies; for, if we fail, dissatisfaction with the lack of progress may well turn these people to the dictatorial system of the Communist world.

What are the economic problems that must be faced here? One of the Characteristics of the less-developed countries is their dependence on one or two primary commodities. In Africa, for example, 17 countries depend on a single commodity for roughly one-half or more of their total export

earnings; in Latin America, 15 countries find themselves in this position.

The dependence on primary commodities is complicated by several factors. First, there is the well-known problem of cyclical and other fluctuations in demand to which these products are particularly prone, with the result that the value of a country's exports of primary commodities is subject to wide variations from year to year. An abrupt decline in the world market price of a primary commodity can result in a loss of exports earnings in a given year greater than the total amount of foreign aid received. Second, certain commodities, such as coffee, grains, and sugar, have shown a persistent tendency toward increased output. The introduction of modern farm techniques, the use of fertilizers and better disease control, not to mention governmental measures, have been important factors in this regard. As a result, the aggregate supply of some of these products tends to exceed by substantial margins current and probably future demand at reasonable prices. Finally, and most serious of all, the rate of growth in exports of primary commodities is substantially lower than the rate of growth in exports of manufactured products or the rate of growth in incomes in the industrial countries.

In fact, it would seem there is a good deal of similarity between the problems of the farm sector within an industrial country, such as the United States, and the difficulties of primary product producing countries vis-a-vis industrial countries. One difference is that in most industrial countries the government have arranged to provide minimum incomes to the farmer by one means or another--not always by economically sound means. On the international scene, however, it has not been possible to bring about a similar result.

The United States Government is now very actively concerned with this problem of primary product markets throughout the world. We know that a reasonable measure of stability in export earnings is essential for economic growth. Clearly, no rational planning can take place and no development plans can be sustained if the export earnings of the developing countries are subject to violent fluctuations which are not offset in some way. Furthermore, we know that political stability can be affected by those swings. Accordingly, we are trying to develop in collaboration with other governments suitable means to deal with individual commodity situations--preventing world market prices from falling sharply in cases where sound and practical means can be developed, and seeking to bring about, in the long run, a better balance of supply and demand.

One of the fundamental solutions to this problem is, of course, diversification and industrialization in the less-developed regions. Where it is successful it reduces reliance on export earnings from primary products alone. But this leads to the further question of what type of diversification and what kind of industrialization is appropriate and feasible. To take an obvious example, when we wish to encourage Brazil to reduce the mountainous over-supply of coffee, what products for which Brazil is suited should be developed instead? Sugar? Cotton? Wheat? You know the problems with each of these.

If, on the other hand, industrialization is to be emphasized, what line of industry? The obvious answer is that development should occur first in labor-intensive light manufacturing types of activities, for these are the products which the developing countries are best able to produce.

But here we encounter a different though equally vexing problem. The developing countries need markets for these new products, and the competition they create for the established industries of the advanced countries presents, at times, considerable difficulties. Yet, if we do not make outlets for their products available, our aid efforts will have been in vain, and we will be justly accused of operating under the slogan "Aid not Trade"--an irrational slogan indeed.

The world textile situation at present poses a problem of this kind, and the United States has taken initiatives to develop totally new forms and procedures to obtain international cooperation between the advanced and the less developed countries. Recently, we have been participating in a multilateral effort of textile producing and consuming countries to bring about a world agreement which we hope will promote the steady growth of international trade in textiles on an orderly basis. Consuming countries would be pledged to grant increasing access to their markets for textiles from the less-developed countries; each exporting nation would be required to cooperate within the framework of international standards designed to prevent the disruption of markets and undue damage to industries in the consuming countries. In this way, we hope to avoid resorting to excessive protectionism or unilateral restrictions which would obstruct the growth of the developing countries. At the same time we and other industrial countries give our own textile industries the kind of safeguards and assistance they need and, indeed, and entitled to have.

Another major development of our time is without question the European Common Market. That extraordinary undertaking, originally regarded by many people as visionary and impractical and in its early stages mistrusted and resisted by the industrial leaders of Western Europe, has not only become a reality and a success but is changing the face of Europe and is affecting trading patterns throughout the world.

The Common Market will encompass 300 million people and within it enterprises are being adapted, plants modernized, and production rationalized to serve its consumers effectively and efficiently. The European industrialist has found that the Common Market rather than being a danger is a gold mine. The rate of over-all economic expansion has increased substantially and a state of prosperity has spread throughout the Community. And now the United Kingdom is about to negotiate accession to this Market and other European countries may well follow suit.

For us in the United States the Common Market is of major significance. In the first place, it reinforces the imperative for us to think out anew our own trade policies, approaching the subject with a fresh viewpoint and free of the preconceptions of the past. The new Europe is presently growing at a rate more than twice our own. Our industries are faced with the prospect of competing with industries in Europe which enjoy free access to all Common Market customers. How well we are able to increase our efficiency at home and to adjust our trade policies and related internal policies to this new situation will determine the extent to which we will benefit from these new developments in Europe - developments which present us with tremendous opportunities as well as great problems.

Of great interest to this conference, no doubt, is the potential effect of the Common Market on our agricultural exports. There are dangers here: the Common Agricultural Policy which is being developed now in the European Economic Community could lead to excessive protectionism and stimulation of uneconomic production. In cereals and coarse grains there could be substantial shifts in world trade and the effect on our exports could be serious.

We in the Department of State and Department of Agriculture are studying this problem very carefully. We are working closely with our European friends and seeking ways of ensuring that in the end they decide upon measures and policies which will afford reasonable treatment to the export trade of other countries including the United States and our friends in Latin America and elsewhere.

Finally, I should like to invite your attention for a moment to two problems of our own in the United States. These are not of the same order of magnitude as the rise of the less-developed regions or the development of the European Common Market, but they are important to us as Americans. The first is the unemployment problem. For about a year the seasonally adjusted unemployment rate has been around 6.8 percent of the civilian labor force, even though the number of persons employed has reached a record high. The unemployment figures mean human hardship and privation on a scale which we cannot accept. In addition, they mean a waste of our economic resources which we cannot afford, considering the dangers and challenges confronting us as a nation.

The second point which I should like to mention is our balance of payments problem. Ever since 1950, with minor exceptions, we have been running a deficit in our over-all balance of payments, and in the past three years it has reached serious proportions. The over-all deficit in 1960 was \$3.9 billion, of which the short-term capital outflow represented \$2.0 billion and the basic deficit \$1.9 billion. It is this basic deficit, which excludes short-term capital movements, which is important. It results in an outflow of gold or an increase in foreign claims on the United States or both. In 1960 we reached the point where aggregate foreign claims exceeded for the first time the United States gold stock. Despite some improvement in 1961, the problem remains very serious. The condition is one which cannot be allowed to continue, either from the standpoint of the United States alone or from the standpoint of the financial and trading system of the entire free world.

Both of these are persistent and serious problems. In both cases, as I have said, we cannot tolerate a continuation. The question is, what sort of a solution, or solutions, are we going to adopt? We cannot adopt the solution of cutting back on foreign aid. The dangers and challenges confronting us in the world rule this out. - Nor can we adopt the solution of restricting imports. To do so would be to fail to measure up to the necessities of the time.

Instead, we need to direct our efforts toward increasing our \$5 billion favorable balance of trade by raising the level of our exports. The agricultural sector of our economy can and should play a major part in this effort. In 1961, approximately \$5 billion of United States agricultural

products will be exported, mainly for payment in dollars, and we must continue to emphasize and capitalize on those natural advantages which we possess in the agricultural sector of our economy.

On the industrial side, we must repudiate protectionism and accept the challenge of competition in world markets. To do so, we must increase our productivity and lower production costs at home. This is the best method of controlling inflation and it is consistent with our traditional free enterprise system.

What is general pattern which emerges from all this? I think it is two-fold. In the first place, we need to develop new policies and new concepts in the field of foreign trade. As Mr. George Ball, Under Secretary of State for Economic Affairs, brought out in his address in New York on November 1: "If we are to bring about the kind of open trading world in which our most efficient export industries can share the potential of (Europe's) new market, we shall need tools adapted to the task".

Furthermore, in order to enable us to negotiate effectively with the European Common Market for reduction in tariffs and other trade restrictions, we need broader authority from Congress. Again quoting Under Secretary Ball, "We must authorize our negotiators to strike much broader and more ambitious bargains on behalf of United States industry...What we must seek in a broad-side opening of the European market to our producers--and this is what we shall have to provide them in turn". These are concepts on which we are actively working and which will be spelled out in detail in coming months.

A second conclusion that emerges is that, as in the case of the textile industry, though of course not necessarily in the same way, we will have to develop new forms and procedures for international cooperation in dealing with some especially difficult and important problems. For we have responsibilities abroad as well as at home and we must meet the challenge to find adequate solutions for both within the proper context of international cooperation and responsibility.

Above all, we need to recognize that we are living in an era of rapid change, of great challenges and of need for great responses. The United States cannot just look backward wishfully to time of prosperity in the past. We must reorient our thinking and reshape our policies to the world of today. We must exercise imagination and leadership in helping to mold the world of the future .

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Economics

THE WORLD FOOD BUDGET: THE IDEA AND IMPLICATIONS

Talk by Willard W. Cochrane
Director, Agricultural Economics
at the 39th Annual Agricultural Outlook Conference
Washington, D. C., 9:15 A.M., Tuesday, November 14, 1961

One of the first actions of Secretary Freeman in the early days of this Administration was to ask for the preparation of a comprehensive world food budget. Work began in the Foreign Agricultural Service in February of 1961 and resulted in a publication during March entitled "The World Food Deficit - A First Approximation." In April, following a reorganization of the economic functions of the Department, this work was continued in the Economic Research Service.

In October, we published "The World Food Budget - 1962 and 1966". The idea, the findings, and the implications of this study are the subject of my talk today.

World food surveys are not new. The FAO published "The First World Food Survey" in 1946 and a second one in 1952. For a number of years the Foreign Agricultural Service has maintained food balance sheets for most free world countries. However, the World Food Budget is the most comprehensive study of its kind in the world today, and the first to be carried out in such a way that it can serve the purpose of the theme of this Outlook Conference: "Gearing U. S. Agricultural Production to Expanded Domestic and Foreign Use."

On January 24, 1961, President Kennedy said "We must narrow the gap between abundance here at home and hear starvation abroad. Humanity, and prudence alike, counsel a major effort on our part." Obviously, a prerequisite to a major effort on our part is the identification and measurement of the gap, country by country and commodity by commodity. The President, in his first farm message to the Congress on March 16, 1961, stated: "The Secretary of Agriculture and the Food for Peace Director have already initiated a study of the food and fiber needs of other free countries." Also, from the standpoint of the theme of this Outlook Conference, I would like to point out that on August 24, 1959, in my Presidential address to the American Farm Economic Association I spoke of: "The necessary linkage of effective supply control to foreign demand expansion." This, then, is the purpose of the World Food Budget.

Highlights of the Study

The World Food Budget, copies of which are available in the lobby outside of this room, is a study involving three billion people in 100 countries. One-third of these people live in 30 industrialized countries, mainly in the Northern Hemisphere. Only in the past two or three decades have some of these people escaped permanently from the threat of malnutrition and hunger. This is true of Eastern Europe, the Soviet Union, and Japan. This happy situation is a result of the technological revolution in agriculture -- a subject some of you have heard me expound upon at length on other occasions.

Over two billion people live in '70 underdeveloped countries' of the world and often suffer from malnutrition and occasionally real hunger and even famine. These countries are located mainly in the Southern or middle regions of the

globe. It is here that we have attempted to measure the difference between total available food including that available under aid programs, and a minimum nutritional standard.

Let me set forth our standard diet and give comparisons with a particular underdeveloped country (Indonesia) and with the U. S. average in 1958.

	Nutritional : 1958 Consumption		
	standard	Indonesia	U. S.
	(grams per person per day)		
Animal protein	7	4	66
Animal plus pulse protein	17	1414	71
Total protein	60	48	97
Fat	38845	38	149
Total calories	2300-2700	2125	3220

This minimum nutritional standard was arrived at especially for this study. It was developed by a committee of nutritionists drawn from the Agricultural Research Service of the USDA, the FAO, and the International Cooperation Administration. Note that the required calories range from 2300 to 2700. This is because requirements vary by country depending upon climate, body size, and other factors. While not all nutritionists agree on a specific requirement for fat, our committee arrived at a fairly low proportion of 15 percent of total calories from this source. Also, many nutritionists feel that pulse protein can be substituted for animal protein to a greater extent than indicated in the minimum standard.

Calculated on the above basis we arrive at the following world food deficit for 1962, expressed in terms of important U. S. Export commodities. I will also compare these deficits with the U.S. rate of production and export.

	World deficit, 1962	Deficit as per- cent of U.S. production	Deficit as per- cent of U.S. exports
Animal protein, as nonfat dry milk	3.3 bil. lbs.	150	450
Pulse protein, as dried beans	3.5 mil. bags	20	100
Fat, as vegetable oil	7.0 bil. lbs.	80	350
Total calories, as wheat	1.1 bil. bu.	90	165

Again, let me remind you that these are remaining deficits on an annual basis after our expanded Food for Peace program. Thus, while we have large stocks of wheat that have been built up over a period of years, they would be sufficient to fill the world deficit for only slightly more than one year.

The relative nutritional gap for 1962 by major areas of the world and with population comparisons is as follows:

<u>Area</u>	<u>Population</u>		<u>Percent of World</u>
	<u>Million</u>	<u>% of Group</u>	<u>Deficit</u> <u>1/</u>
Latin America	210	10	6
Africa	260	12	6
West Asia	80	4	3
Far East	930	42	60
Communist Asia	<u>720</u>	<u>33</u>	<u>25</u>
	2,200	100	100

1/ Computed by price-weighted tonnages of farm commodities listed above.

The most striking thing about this table is the fact that 42% of the people who are short of food live in the Far East and account for 60% of the world deficit of food. In comparison, the deficit -- in both absolute terms and on a per capita basis -- is not large in Latin America and Africa.

The 1966 outlook is for approximately the same deficit as in 1962. This results from a rate of population growth about equal to the expected increased world production of food. From 1937 to 1960, world agricultural production increased at an average rate of 1.8% per year while population increased only 1.5% per annum. However, from 1962 to 1966, population is projected to increase almost 2% per year, and world agricultural production will probably expand at about the same rate.

The attached charts indicate the magnitude of the food deficit by commodity and by country.

In Figure 1, "Animal and Pulse Protein Deficiency," we see that the animal protein deficit alone is highly concentrated in India, Indonesia and Communist China. Most countries of West Africa are deficient in both animal and pulse protein. A few countries are in need of only additional pulse protein in their diets.

Figure 2, "Fat Deficiency", shows that the fat deficit per capita is largest in the countries of West Africa, Iran, Burma, Bolivia, Ecuador, Pakistan, Korea, and, somewhat surprisingly, Japan. A P.L. 480 agreement with Pakistan, recently announced, will make three quarters of a billion pounds of vegetable oils available to that country over a four-year period. In terms of total tonnage of vegetable oils required to fill the deficit, the highly populated countries of India and Communist China would be dominant.

"Calorie Deficiency per Capita", (Figure 3,) shows that the average calorie deficit per person is largest in Iran, Jordan, and a number of Central and South American countries. It is interesting to note that West African countries, where consumption of certain root crops of high caloric content is large, do not suffer from a caloric deficit whereas there is a large deficit of protein.

Each dot in Figure 4, "Calorie and 'Other' Protein Deficiencies in Terms of Wheat", represents 734,000 bushels of wheat. This gives the best picture of the location of the greater part of the world food deficit in total calories and protein in terms of our largest food resource -- wheat.

In Figure 5, "West Europe: Wheat Imports Decrease but Coarse Grains and Vegetable Oils Rise", no dietary deficit for Western Europe has been projected. By 1966, European imports of wheat are expected to decline because of a general upgrading of the diet. Commercial imports of coarse grains are expected to increase commensurate with a growing output of live-stock products. West Europe is also expected to continue to be a major commercial importer of vegetable oils.

The wheat surplus of Eastern Europe in 1962 and 1966 will be sharply less than in 1958, (Figure 6.) However, this is mainly due to the fact that the Soviet Union had an unusually good wheat crop in 1958. Here again, no dietary deficiencies have been projected for this area of the world. Both East and West Europe are able to either produce enough food or other products that can be exchanged for food to meet fully their minimum dietary needs.

The Far East is currently consuming less than 60 percent of its dietary needs for wheat and only about 20 percent of its dietary needs for animal protein as measured in terms of nonfat dry milk, (see Figure 7.) This is after imports of these commodities, including all concessional imports. This is the area of the world that has the greatest deficit in terms of animal protein, other protein, and calories. Despite an expected increase in aid shipments, this area will continue to be seriously deficient in terms of animal protein, other protein, and calories through 1966.

Africa ^{consumes} ~~imports~~ a good deal more wheat than it produces. Imports, again including aid imports, are expected to increase by 1966, but may not meet minimum nutritional standards. Production of coarse grains in Africa will continue to exceed consumption by a margin that is widening slightly. This is due primarily to corn production and exports of the Union of South Africa. (See Figure 8). In West Asia, imports of wheat are not expected to fully meet nutritional requirements.

The three countries, Argentina, Mexico, and Uruguay, will continue to have sizeable export availabilities of wheat. (See Figure 9.) However, the remainder of Latin America, although importing considerable quantities of wheat, will still face a substantial nutritional deficit in 1966.

Without attempting to identify causal relationships, I would like to point out some of the characteristics that are associated with food deficit countries. These 70 countries have low per capita income. In 1955-57, income averaged \$95 per person compared with \$843 for the 30 industrial countries. Yields per acre are generally low and, except in Africa and West Asia, the acreage available per person is small. For

instance, the Far East has only 8/10 acres of arable land per person compared with 1.7 acres for industrialized countries. Communist Asia has only 4/10 acre per person. Many of these countries have a warm and humid climate. Illiteracy and lack of physical vigor is widespread. Some of these people live in a society that does not put the same premium upon acquisition of wealth and success in material matters that are basic to our Western philosophy. Food deficit countries use little or no chemical fertilizers in their agricultural production. For the 70 food-short countries, as a whole, domestic production of chemical fertilizer per person in 1958 was only about 1 pound compared with an average of over sixty pounds for the 30 Northern industrialized countries.

The Implications -- Particularly as Related to Agricultural Outlook

The World Food Budget shows that we can increase substantially our agricultural exports under the food aid programs. We arrived at this conclusion shortly after the study began in February and well before publication of the report in October. As a result, we requested and received a special supplementary authorization from the Congress for sale of an additional \$2 billion worth of farm products under Title I of P.L. 480. This authority became effective in May 1961.

Our total agricultural exports in Fiscal Year 1962 are now projected at \$5.1 billion compared with \$4.9 billion in fiscal 1961 and \$4.5 billion in 1960. This increase is due to an expansion of our food aid programs. Our Food for Peace exports are scheduled to increase gradually over the next five years. We are giving special study to the possibility of even further acceleration to this activity.

For particular items, you will be able to obtain detailed projections at the commodity sessions that begin this afternoon and conclude Thursday at noon. However, I would like to mention now that we are projecting total exports of 675 million bushels of wheat in crop year 1961-62 compared with the previous record of 662 million bushels last year. Exports of vegetable oils at 1.9 billion pounds, and nonfat dry milk at 740 million pounds are also expected to be at record high levels. We are giving study to programming large quantities of soybean proteins and dried beans and peas to help meet the large deficit of proteins.

As stated earlier, despite our large Food for Peace programs, there will continue to be a world food deficit over the next five years. Our studies indicate that the world may be able to meet its requirements for pulse protein, but a considerable deficit will remain in terms of animal proteins, fats, total calories, and total protein. This is especially true of the Far East and Communist Asia. On the other hand, a concerted effort could bring diets to the minimum standard by 1966 in Latin America, Africa, and West Asia. But in order to meet the food deficit in the Far East, food production must be increased in the countries where the shortage exists. The Department of Agriculture, in cooperation with others, is ready to offer its technical know-how in agricultural production to these countries -- in addition to our direct aid through shipments of food.

The world deficit/of food, although large in terms of our present and prospective surpluses, does not mean that we have no need for supply management programs in our domestic farm policy. We cannot fully solve our surplus problems by simply expanding further our foreign food aid. To attempt to do so would mean very high costs to the U. S. Treasury. It would also create serious problems for other exporting countries. Moreover, there are conditions in the food deficit countries themselves that limit their capacity to receive food aid commensurate with their dietary needs.

In our World Food study we gave much attention to the ability and the willingness of foreign governments to accept food on concessional terms. We found that there are many obstacles. Often, there are insufficient physical facilities for receiving and distributing food once it reaches the shores of the underdeveloped country. Large groups of people do not have enough income to purchase the needed food even when offered under the favorable terms of sale under P.L. 480 programs. Yet most countries are unable or unwilling to establish and operate countrywide free food distribution programs. Some of these obstacles can and must be overcome to reach the level of food aid that we are contemplating.

Another important implication of our World Food Budget is that concerned with the question of shifts in the pattern of U. S. agricultural production. The world's food needs and our ability to fill these needs would be better served, for example, by producing less feed grains and more soybeans and dried beans and peas. Our current stocks of feed grains at 84 million tons is some 30 to 40 million tons in excess of our needs. In addition, we have an annual production capacity of 5 to 10 million tons more than is required. Yet, we do not anticipate being able to ship more than 4 to 5 million tons per year under our Food for Peace program. Large scale indirect use of feed grains for food aid by means of increased livestock production will be limited by cost considerations.

The large deficit of animal protein in world diets suggests that we might increase our production of nonfat dry milk. However, it appears that such action would be limited by the high cost of the accompanying production of butter. Some nutritionists find that pulse protein can be utilized to substitute for animal protein to a larger extent than indicated in our reference standard. In any case, we will have ready outlets in the Food for Peace program for significant quantities of dried beans and peas and soybean proteins. We can also use much soybean oil to fill part of the critical shortage of fats. Due to food preferences, we can make good use of larger quantities of rice to meet emergency calorie deficits in particular countries.

In summary, we now know for the first time the magnitude of the world's needs for food -- nutrient by nutrient, commodity by commodity, and country by country. We know the capacity to produce food in both the underdeveloped and the industrialized countries; and something of the difficulties we face in using all of our excess productive capacity to relieve shortages in all areas abroad. We now have the pertinent facts and I hope we have outlined the major issues involved in the "Gearing of U. S. Agricultural Production to Expanded Domestic and Foreign Uses."

Figure 1

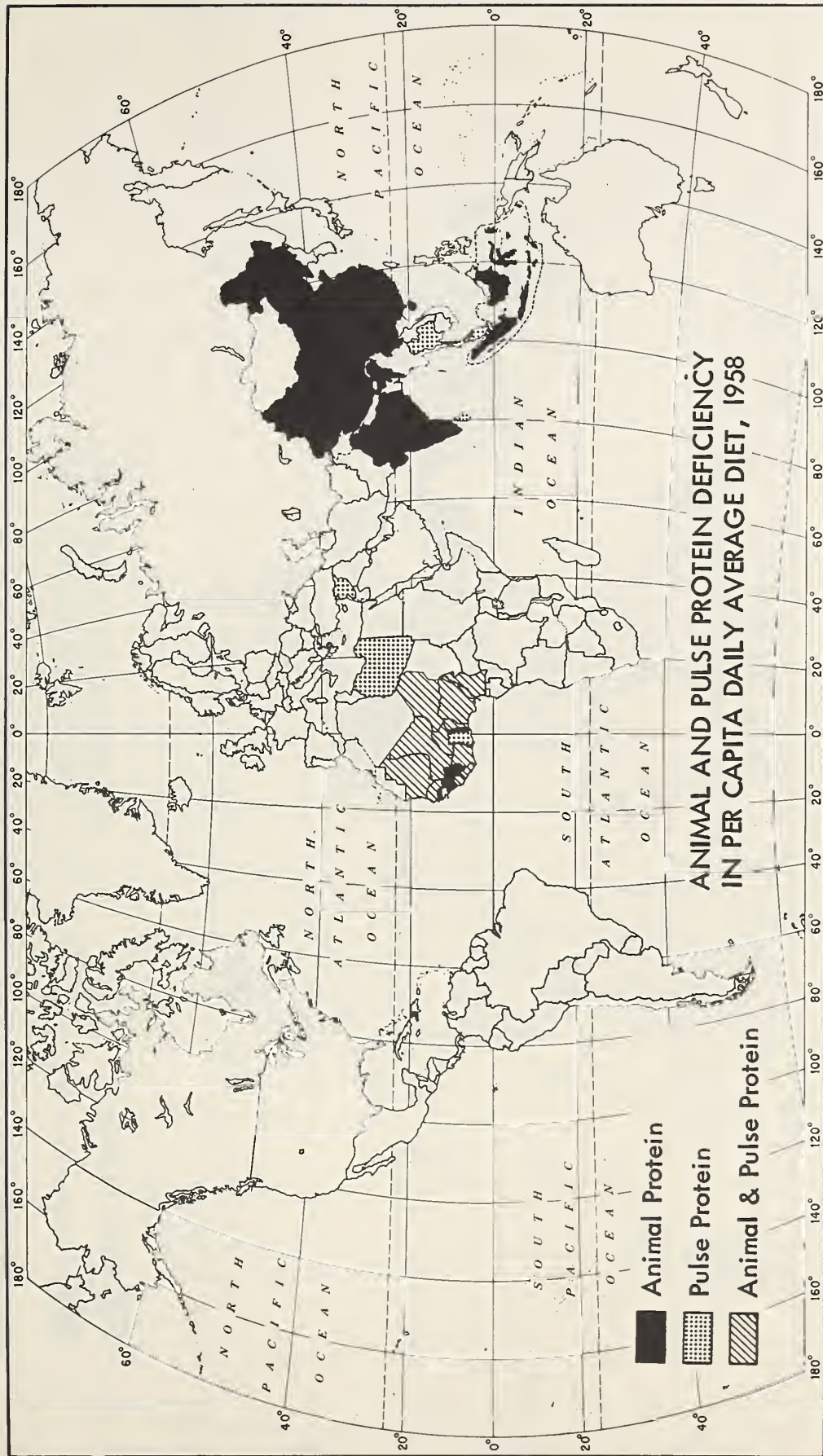


Figure 2

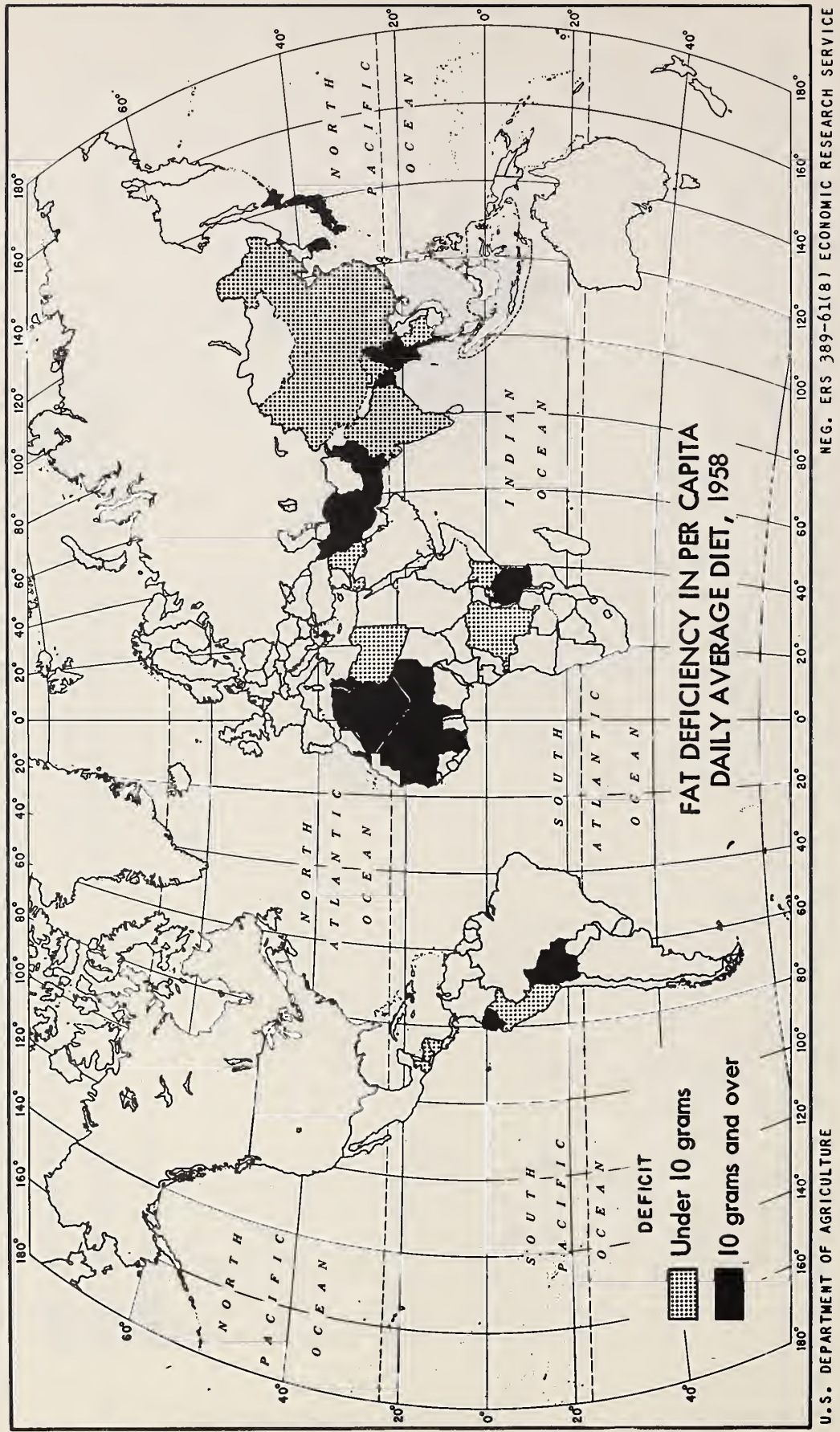


Figure 3

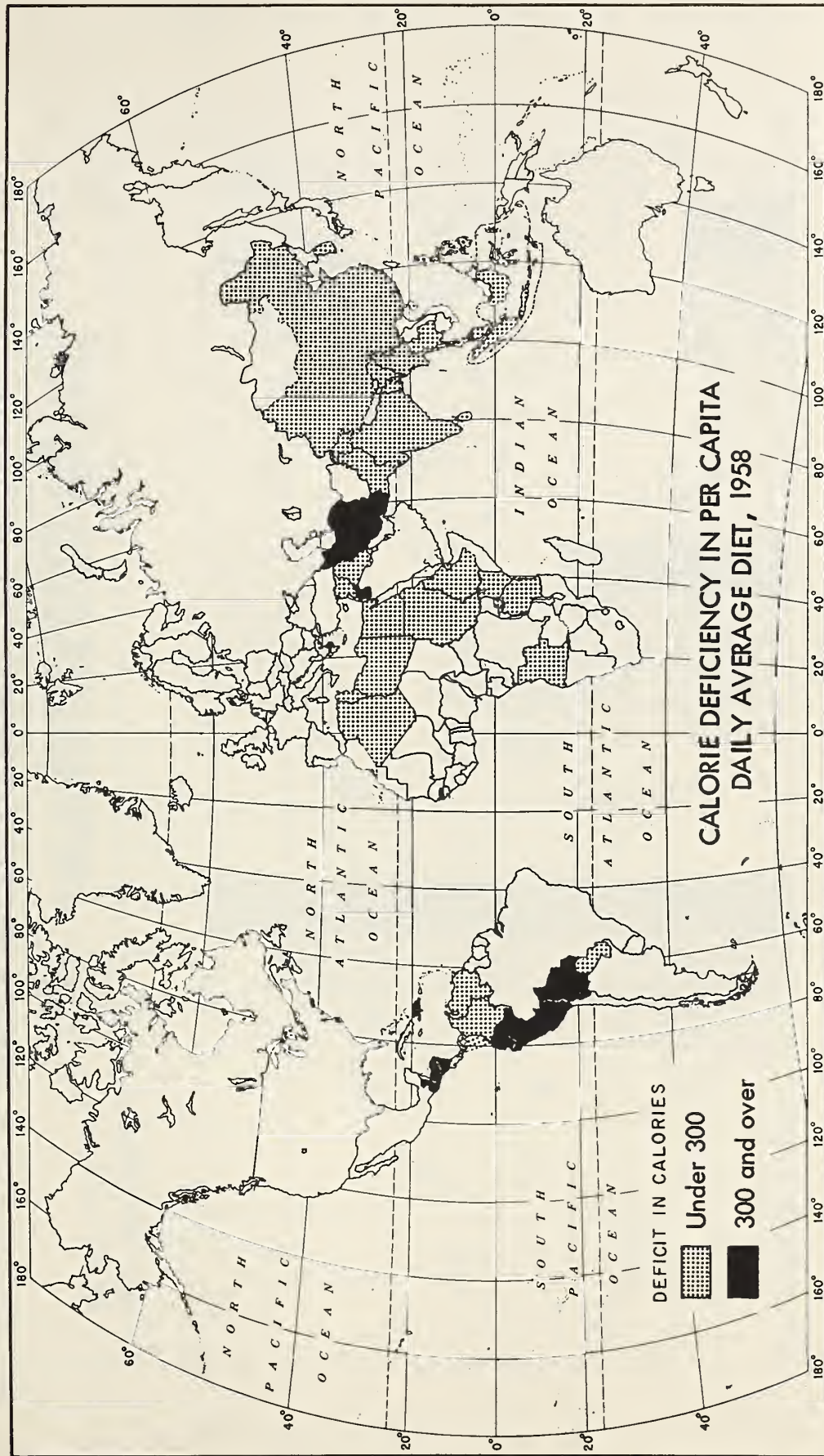


Figure 4

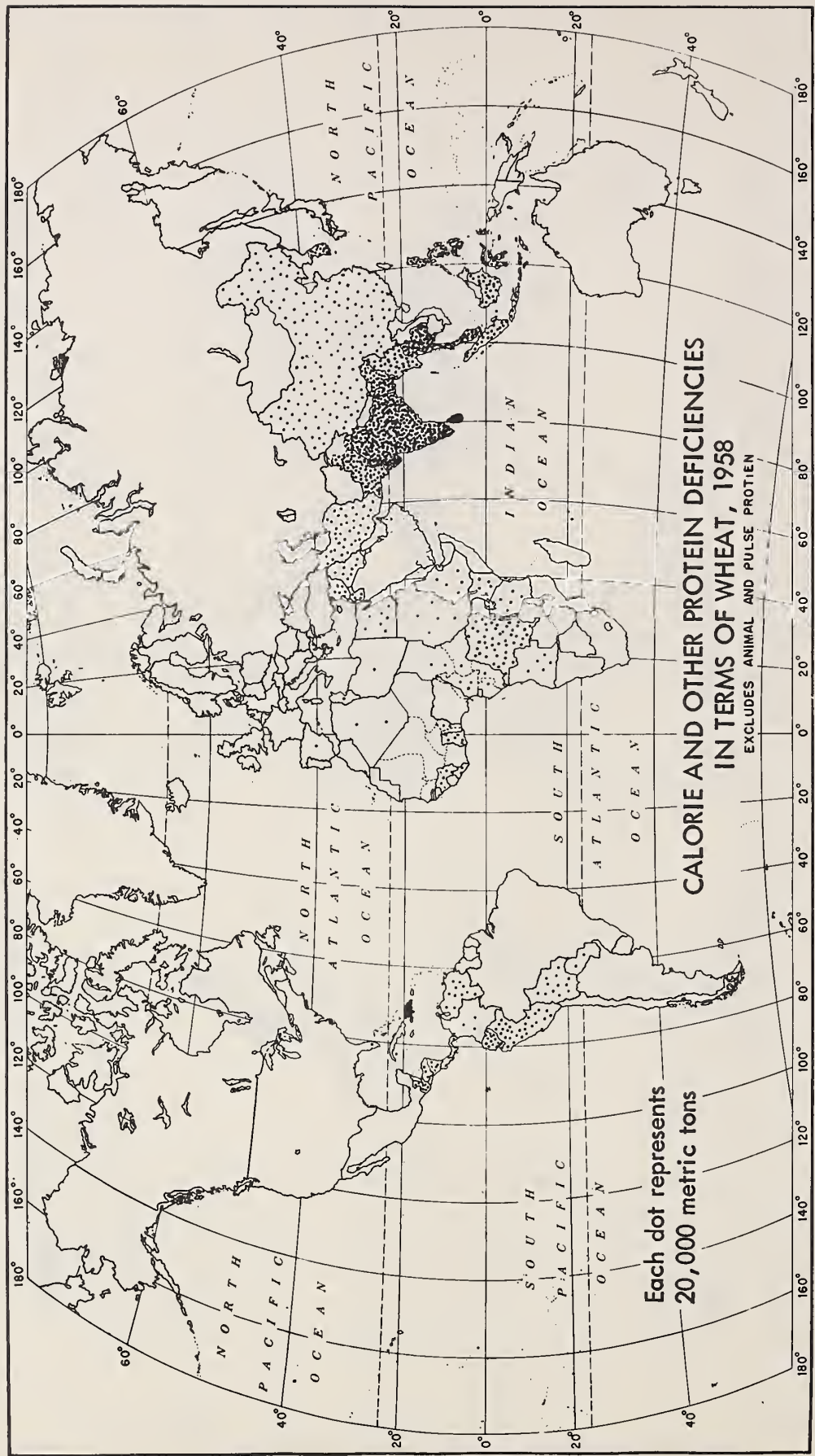


Figure 5

Western Europe: Net imports of coarse grains, wheat, and vegetable oil 1958, and projected 1962 and 1966

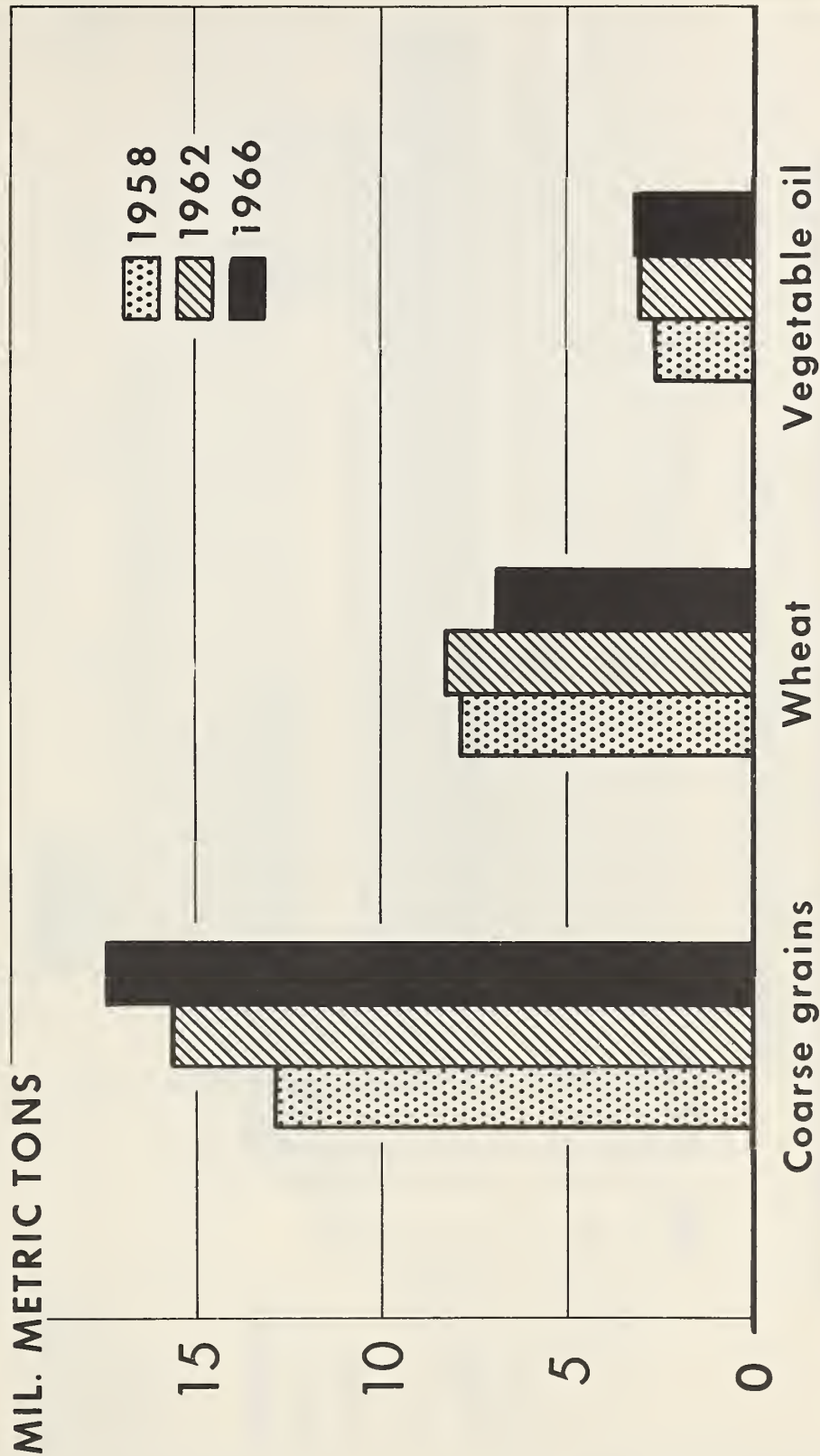
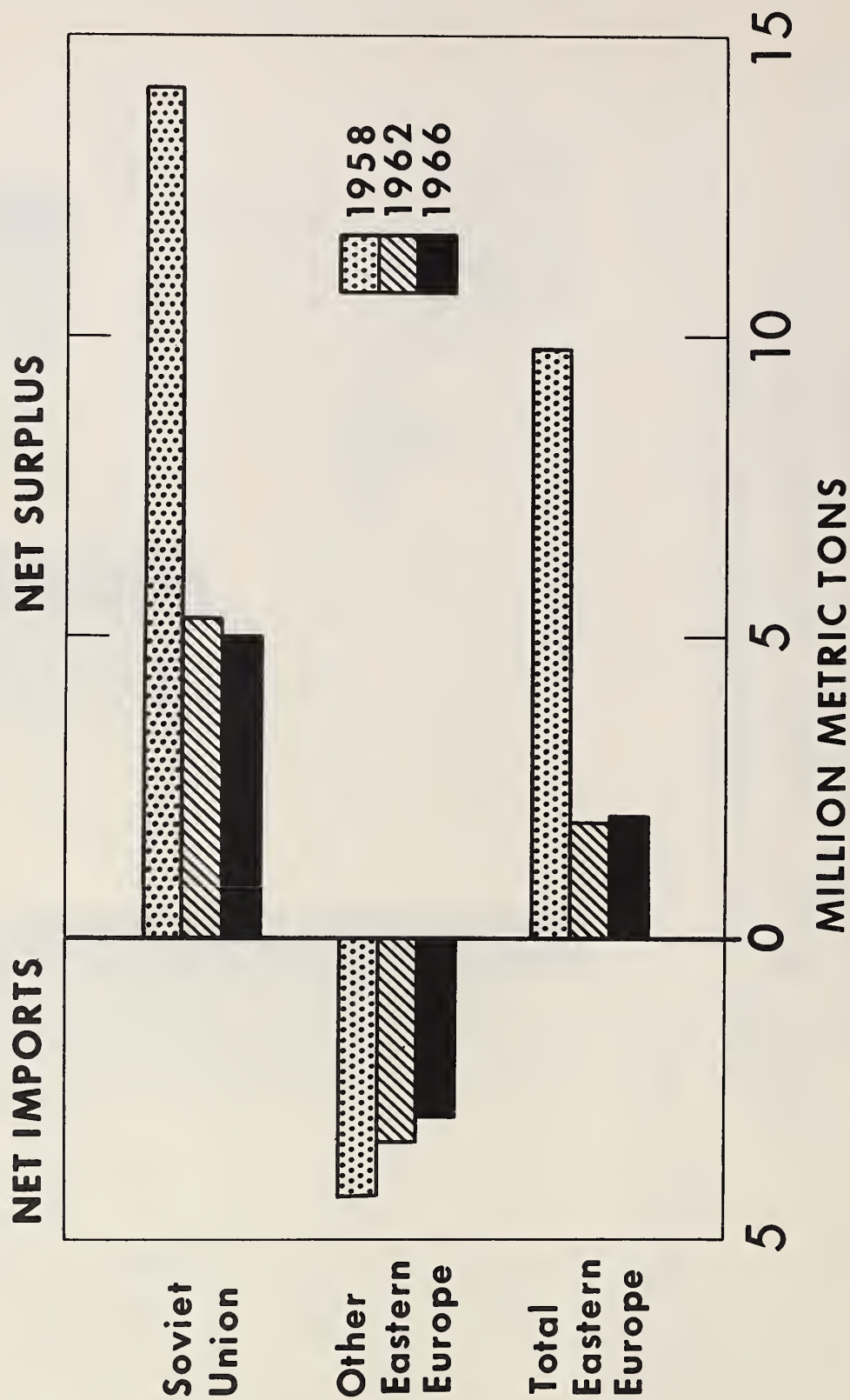
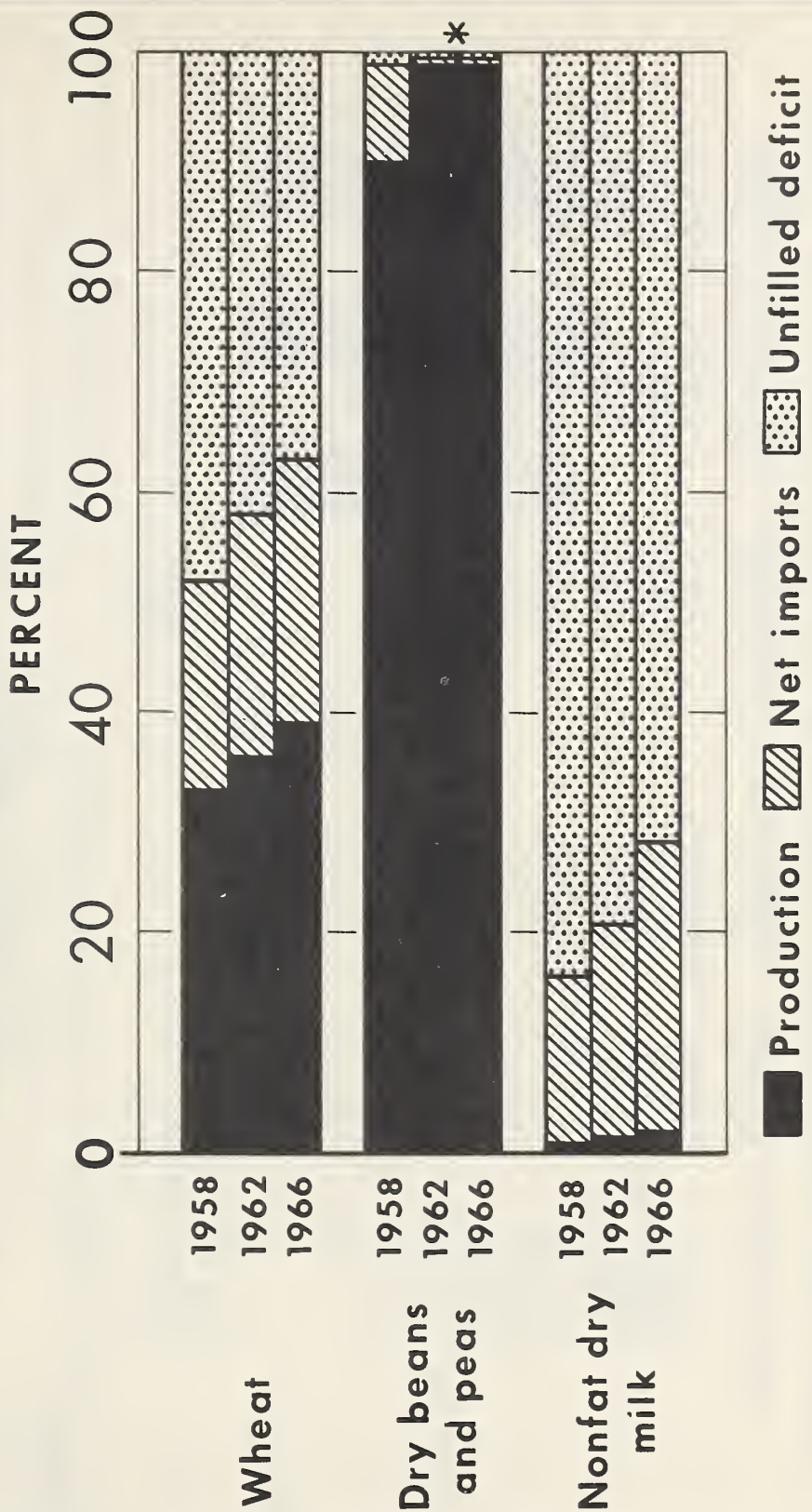


Figure 6

Eastern Europe: Net position for wheat, 1958, and projected 1962 and 1966



Far East: Production, net imports and unfilled deficit as percentages of requirements to meet nutritional standards for 1958, and projected 1962 and 1966



* IMPORTS 0.5 PERCENT AND UNFILLED DEFICIT 0.5 PERCENT IN 1962 AND 1966.

Figure 8

Africa and West Asia: Production and consumption of wheat and coarse grains, 1958, and projected 1962 and 1966

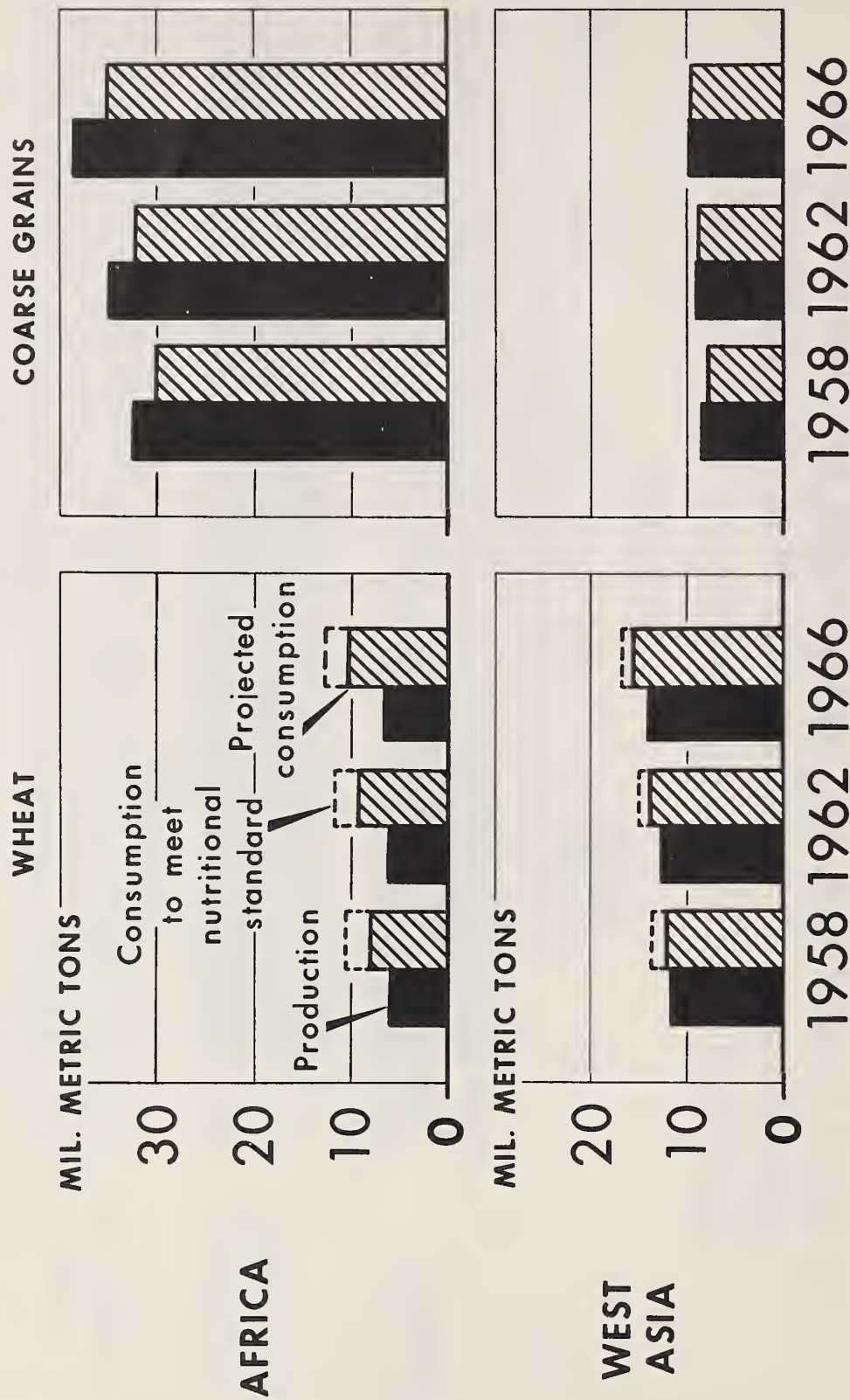
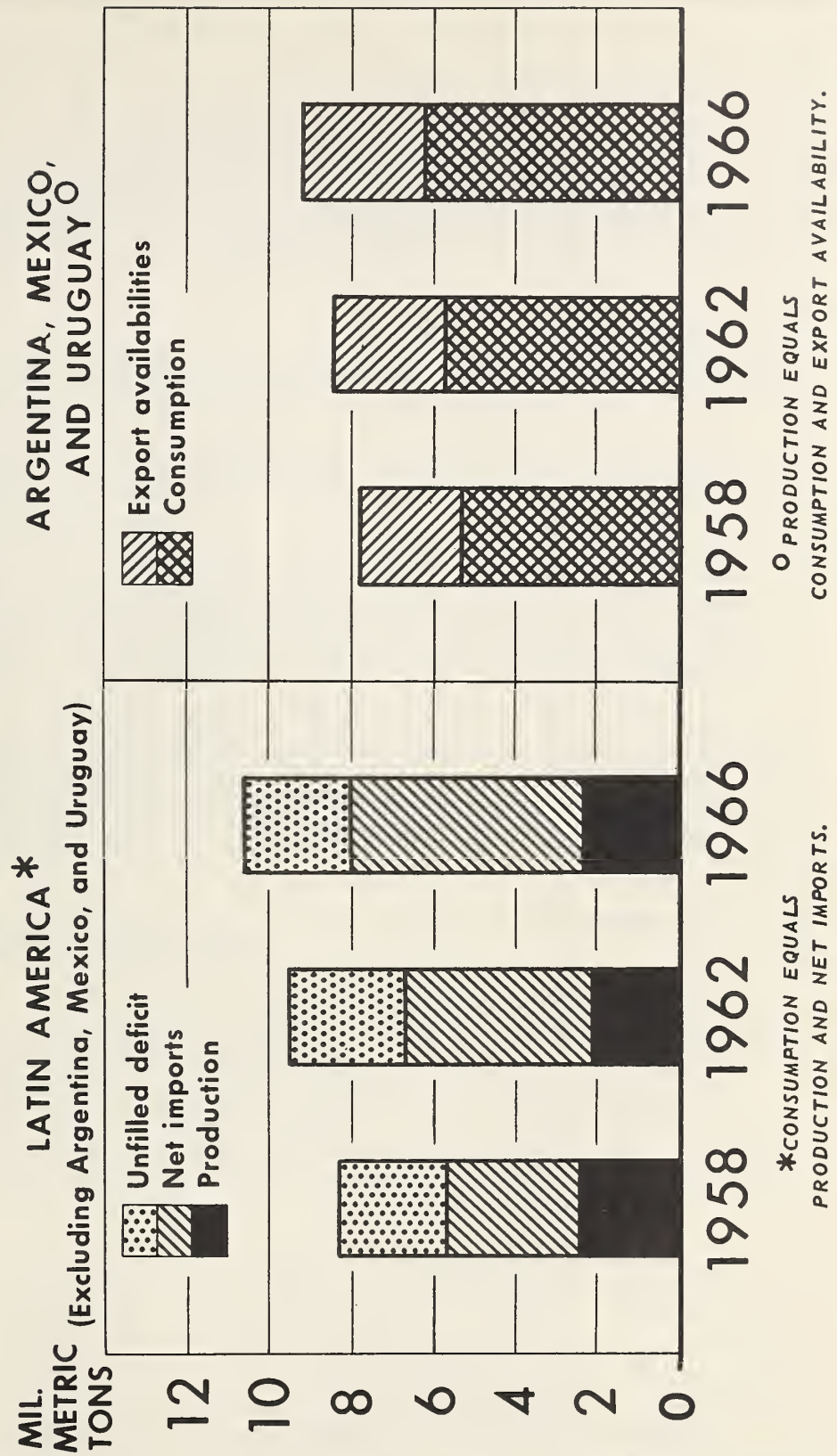
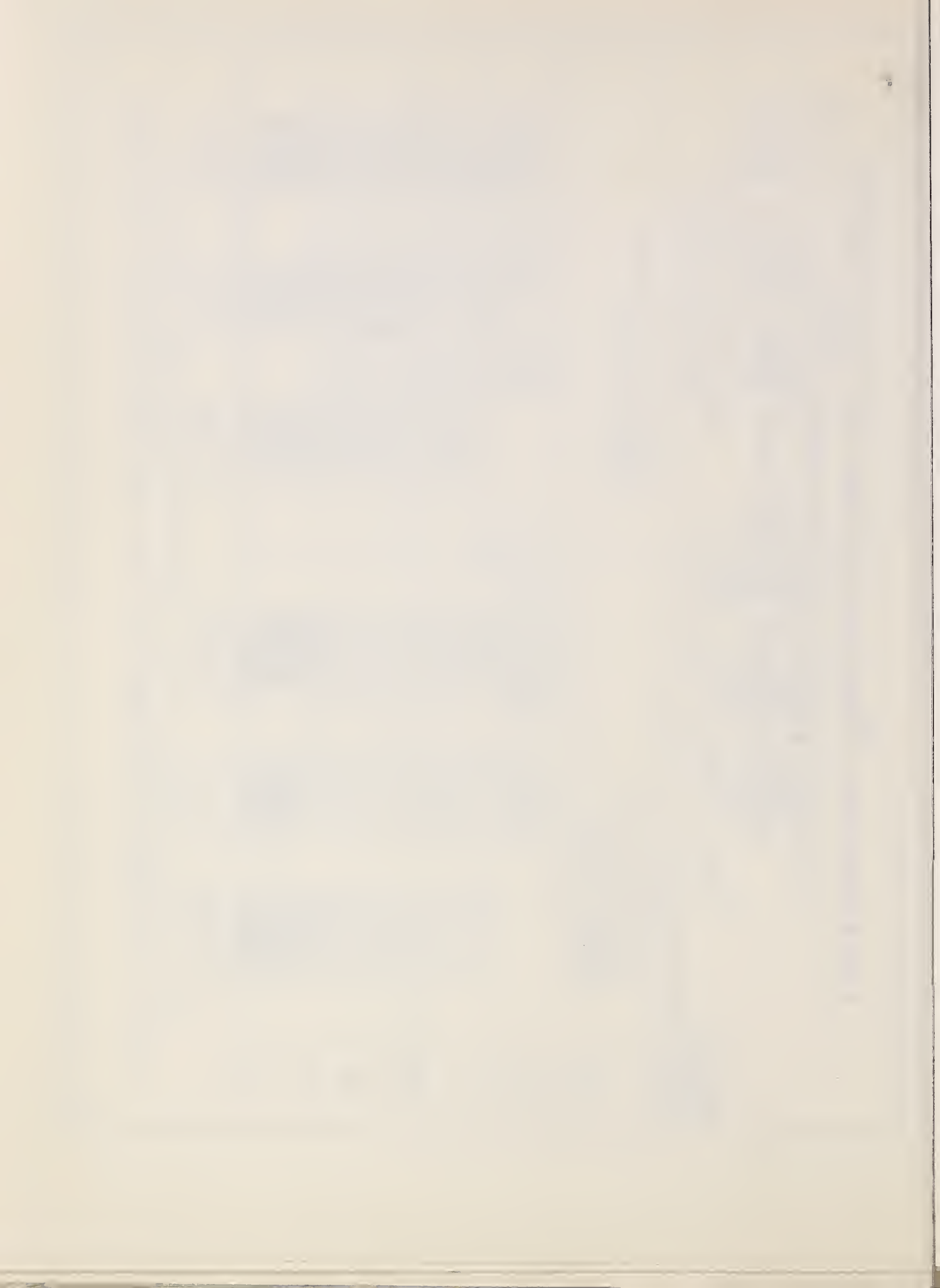


Figure 9

Latin America: Wheat production and requirements to meet nutritional standards, 1958, and projected to 1962 and 1966





Summary of Remarks by
Mrs. Aryness Joy Wickens
Economic Adviser, U. S. Department of Labor
Annual National Agricultural Outlook Conference
Panel Discussion on the National Economic Situation and Outlook
November 13, 1961

The outlook for employment, productivity, prices, and wages in 1962 is, as is customary, my assignment on this panel.

Our judgment of the coming year must, of necessity, rest on our appraisal of our current position and how far we have so far come along the recovery road.

In terms of the volume of general economic activity, as you well know, the rebound was quite rapid in the spring and early summer, but in the last four months the rate of recovery has slackened. This is evident in most economic indicators, including employment.

This October total employment exceeded the level of a year ago by about 350,000, with a gain in non-farm employment partly offset by the long-term decline in farm work. Non-agricultural employment has risen considerably more than seasonally since the recession low early this year, and since June it has recorded a new high for the month, every month.

Nonetheless, the growth has not been adequate to provide enough jobs for our expanding labor force.

To be sure, unemployment has declined in absolute terms and was slightly below 4 million in October. However, it was still 400,000 above last year's level. The rate of unemployment, seasonally adjusted, has remained virtually unchanged for 11 months at the high rate of slightly under 7 percent. The unemployment rate is, of course, affected not only by the volume of employment, but also by the growth in the labor force. For the first 10 months of 1961, the increase in the labor force has averaged 1,200,000.

In periods of recovery, it is usual for employment to lag behind the rise in the volume of activity, and so it is not surprising that much of the gain of about $4\frac{1}{2}$ percent in overall output since the low in February has been made through additional hours of work and higher productivity. But in this recovery period, the lag in industrial re-employment has now gone on longer than is usual and the continued high rate of unemployment is a matter of concern. True, there has been real improvement in recent months, particularly in the decline in long-term unemployment but it is still substantially above last year and it is clear that we still have quite a way to go.

When we look at employment in the various sectors of the economy, as shown in the data from non-farm payrolls, we find that the changes in this cycle have been far from uniform. In government, finance and services, the recession was scarcely felt; employment in state and local government, in particular, has continued to expand sharply, adding nearly 300,000 employees over the past year, mostly in the school systems. On the other hand, in all the industries involved in the production and distribution of goods -- manufacturing, mining, transportation, and trade -- employment is still somewhat below its best level of 1960, despite the genuine improvement in recent months. Over the 12 months ending in September 1961 -- the latest month for which we have detailed payroll data -- employment in government, finance, and services increased about 450,000, while in the goods-producing industries there was a drop of about 275,000 in payroll employment.

Against this background, what is the outlook for 1962? Let us take the range of economic projections by economists which envisage a vigorous rise of activity in 1962 and translate them into terms of employment. I refer to the fairly common anticipation of an average of around \$550 to \$560 billion in Gross National Product for the coming year with a peak of \$560 to as much as \$575 billion in the fourth quarter of 1962.

If we take a forecast at the upper end of the range -- say \$575 billion by the end of 1962 -- it would mean an increase in employment of some 3 million from present levels. Taking into account the somewhat larger growth in the labor force which would be expected to accompany such a vigorous rise in activity, the resulting decline in unemployment would be about one million. Thus, the rate of unemployment even in this projected model of the Gross National Product would remain too high -- a little over 5 percent.

If the Gross National Product were to be appreciably less than \$575 billion by the end of 1962, the rate of unemployment would be higher, although not proportionately, since the accompanying growth in the labor force and the rise in productivity would both be expected to be smaller.

This brings me to the question of the recent rise in productivity:

As you know, productivity moves with the business cycle. In any consideration of policy, it should be averaged over time. But in the short run, it has an immediate effect on jobs. In the early phases of every recovery period, output per man-hour in industry increases rapidly as the capacity of both men and machines is utilized more fully. This recovery is no exception. The rise in output per man-hour has been quite vigorous and this explains in good part the fact that industrial employment has not kept pace with output. It may well be that a good part of the advantage

which comes from fuller employment of men and equipment has already occurred; nevertheless, we anticipate a rather large increase in productivity for the economy as a whole next year, with the rate of increase slowing down in the latter half of 1962. In making our manpower calculations, by the way, we have assumed for agriculture a slightly slower rate of increase than the phenomenal average rise of 6 percent since the end of the war.

Now let me give you a rule of thumb for translating productivity increases into jobs. For every 1 percent by which productivity in the economy as whole increases around 600,000 jobs are involved. This means that, for example, if there should be an increase of 3 percent in overall productivity there would have to be roughly 1,800,000 additional jobs to help offset that rise. The economy would have to run much faster just to stay in the same place in terms of employment and unemployment.

As we look ahead to job expansion in the coming year, in what industries are the increases likely to occur?

We can look, I believe, for a continuation of the trends of this past year: expansion in government, especially state and local government, and in other service industries; in construction and in trade. In the kind of recovery here projected, employment in manufacturing would also rise, especially in defense-connected industries, but also with a substantial gain for consumer-goods industries in general. But we must all realize that a pickup in employment is likely to be spotty, both geographically and industrially.

Now what is the significance of this for you in agriculture? No one needs to spell this out for the Extension Service. You are fully aware of the problems of farm families as they adjust to non-farm occupations. The state of the nation's job market is directly important to them. In December, 1960, more than one-third of all employed persons living on farms had non-farm jobs. Many of them were dual job-holders. But perhaps more important, the young people growing up on farms who must go elsewhere for work can always find jobs more readily when activity is expanding.

The decline in employment opportunities in farming has added to the nation's unemployment and underemployment potential -- and to its industrial labor force -- for many years. Nineteen sixty-two is expected to show a further decline in farm employment. Rural employment problems are being compounded in some areas by the very rapid introduction of mechanization in handling crops which formerly used a lot of hand labor. I refer especially to cotton-picking and the harvesting of potatoes and other vegetables. This growing mechanization will reduce job opportunities still further. Especially it will affect the streams of migrant labor which move from the South

into northern growing areas and back again. It will leave pockets of severe unemployment in the areas in which these unskilled laborers -- often with little education and little opportunity for alternate employment -- normally make their headquarters. They present a special problem with which we must deal much more effectively than in the past.

We have come to call the kind of job dislocation which goes with changes in industrial markets "structural unemployment." I think it is important to recognize that it applies to agriculture as well. Unemployment of this kind requires specific, tailor-made attacks in terms of each particular local and occupational problem. We are becoming increasingly aware of how important it is to train and retrain people in occupations for which there is a future demand so that they may shift from outmoded occupations. This is quite as true for farming as for other industries. Should we not, for example, train farm residents systematically in the use and repair of these new types of farm machinery -- and of other modern machinery as well?

To solve these problems of unemployment and underemployment we clearly need to improve the occupational and geographical mobility of labor and the functioning of the job market on a much wider scale. Such measures are the center of efforts to make the most effective use of our manpower. It is most heartening to see the vigor with which you in the Extension Service are attacking this whole matter of economic development through the rural development program in connection with Area Redevelopment. We hope that effective training and retraining programs will form an increasing part of this effort. The present Area Redevelopment Program is, of course, limited in scope. If, however, the broader Manpower Development and Training Bill, which passed the Senate should become law in the next session of Congress -- and the Secretary of Labor has just indicated that it will have a very high priority on the Administration's program -- then sources of Federal assistance for much broader, new training programs could be made more readily available.

I now want to refer briefly to two other subjects which are part of my assignment: trends in prices and in wages.

For prices, even given the generally projected strong rise in activity, we do not anticipate any marked rise for 1962. For virtually three years, the wholesale price level has remained quite stable. For 1962, some rise in industrial prices and in some consumers' goods is to be expected with a modest overall rise in the wholesale price index. Prices are unlikely to rise materially when there is still ample capacity for many industrial raw materials and semi-finished goods. It is expected, however, that prices for fabricated industrial goods which are in heavy demand -- such as machinery and electrical products -- will continue to show a rise, particularly since costs are rising.

At the consumer level, a slow, rather small rise in retail prices is anticipated. Retail prices for consumers' goods and services do not follow closely the turns of such moderate business cycles as we have had. We would anticipate a somewhat slower rise in changes for services than in past years, with not much change in food prices and slight rises for some other goods.

With respect to wages, it is expected that the rate of increase in money wages and expenditures on fringe benefits such as are negotiated in the major industrial wage settlements, will be at least as great in 1962 as in 1960 and 1961. That is to say, they are likely to rise by about 3 - 3½ percent during the year 1962. Next year about one-fourth of the workers covered by major bargaining agreements will receive deferred increases which average 2½ percent of average hourly earnings, excluding overtime. A moderate rise in the Consumer Price Index might add another 1 percent. In addition, a number of major contracts are coming up for renegotiation or reopening next year.

So far in 1961, about 2/3 of the workers affected by major settlements were employed in establishments where the wage-rate increase averaged 1½ to 4 percent, not counting "fringe benefits."

This September, the Federal minimum wage under the Fair Labor Standards Act became effective. It raises the minimum to \$1.15 an hour for employees already covered and extends coverage to about 3½ million workers not previously covered, chiefly in retailing, at a minimum rate of \$1 per hour. Studies are now underway to gauge the effects of these changes, with comparisons between 1961 and 1962.

Thus, in summary, the outlook described here today means a sustained, strong rise in overall economic activity -- with rising productivity, only a moderate rise in the price level, a sizeable increase in employment of perhaps three million jobs, and a decline in the level and the rate of unemployment.

Such a recovery is, of course, conditional upon sustained confidence by both producers and consumers. It implies that we will learn to live with international tensions and to view them as a prod to greater efforts to increase the vigor of our domestic economy.

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

Summary of Remarks By
William F. Butler, Vice President
The Chase Manhattan Bank
at the Agricultural Outlook Conference
Washington, D. C., November 13, 1961

Before turning to my assignment -- the outlook for the balance of payments and for credit markets -- it is necessary to set forth briefly my assumptions as to the course of general business. It is my view that 1962 promises to be a year of good business and general prosperity. Three major forces promise to power the advance in business activity. First, business investment in new plant and equipment should rise by a greater amount than current survey show -- I expect the profits picture to improve in a manner that will lead business to increase capital expenditure programs. Secondly, government expenditures are slated to go up \$2 $\frac{1}{2}$ billion a quarter in the next year. Thirdly, consumer markets are beginning to show good strength and the rise in the next year could run to 6%. All of this would yield a gross national product for 1962 in the neighborhood of \$565 billion, or 8% above this year.

Against this background, what are the prospects for the balance of payments and for credit markets? Our balance of international payments is again posing perplexing problems. These are partly due to the very fact of domestic business recovery which leads to an increase in imports. Meantime, our exports have leveled off. Thus, we have already swung into balance of payments deficit at an annual rate of perhaps \$3 billion, and we have lost a moderate amount of gold.

What happens in the period ahead depends on our success in pushing exports. However, this will be difficult if, as seems possible, the rate of economic advance in Western Europe and Japan slows. Thus, my best judgment is that we will face a difficult balance of payments problem in 1962.

I believe we can deal with this problem without undue repercussions on domestic prosperity if we face up to the problem and take firm action. This means that we must balance the federal budget in fiscal 1963, exercise restraint on the wage-price front, and use the new international financial devices which have been set up to deal with temporary balance of payments deficits on the part of such key currency countries as the United States and the United Kingdom.

All of this has a bearing on developments in markets for money and credit. We have had relatively easy money so far in the recovery period. The Federal Reserve has kept free reserves of the banking system at around the \$500 million level. This action has supported a good rise in money and credit, and has kept interest rates fairly stable. As we move ahead, both domestic and international considerations will call for some tightening of credit and a resulting rise in interest rates. Short term rates must move higher to eliminate the incentive to move funds abroad to earn more interest. And some restraint on credit expansion will be required in the interest of price stability as the business recovery proceeds.

However, I do not expect anything approaching the credit squeeze that took place in 1959 and lead to a sharp increase in interest rates. In summary, it is my judgement that we can finance the level of economic activity I foresee for next year, and it is a very good level, without large increases in interest rates and within the compulsions imposed by the nation's balance of payments situation.

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